



This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

- + *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
- + *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
- + *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
- + *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at <http://books.google.com/>

NEDL TRANSFER



HN 1CJD 2

BUSINESS FORMS AND FINANCIAL INSTITUTIONS

PEIRCE SERIES

KD 28443

Jelly Muhlols
Private Copy

BUSINESS FORMS
AND
FINANCIAL INSTITUTIONS

BUSINESS FORMS

AND

FINANCIAL INSTITUTIONS

REVISED BY
LOUIS B. MOFFETT

SEVENTH EDITION OF THE
PEIRCE MANUAL OF BUSINESS FORMS AND CUSTOMS

PEIRCE SCHOOL
PHILADELPHIA
1918

KD 28443



**COPYRIGHT, 1918
BY PEIRCE SCHOOL**

**PRINTED BY
J. B. LIPPINCOTT COMPANY
PHILADELPHIA, PA.**

TO THE BANKERS, LAWYERS AND BUSINESS MEN WHO
HAVE FREELY CONTRIBUTED OF THEIR KNOWLEDGE AND
EXPERIENCE TO THE BUILDING UP OF THIS VOLUME,
AND TO S. H. TALMAN, WHO PREPARED THE QUESTIONS,
THE SINCERE THANKS OF THE EDITOR ARE EXTENDED

CONTENTS

PART I

MONEY AND ITS SUBSTITUTES

	PAGE
MONEY	3
CHECKS	11
PROMISSORY NOTES	27
DRAFTS	37
BANK ACCEPTANCES	43
BANK DRAFTS	46
CASHIERS' CHECKS	50
CERTIFICATES OF DEPOSIT	51
POSTAL MONEY ORDERS	52
REGISTERED MAIL	55
EXPRESS MONEY ORDERS	57
MONEY BY EXPRESS	60
MONEY BY TELEGRAPH	63
FOREIGN EXCHANGE	65
TRAVELERS' CHEQUES	69
LETTERS OF CREDIT	71

PART II

BANKING AND FINANCIAL INSTITUTIONS

BANKING	79
THE NATIONAL BANKING SYSTEM	80
THE FEDERAL RESERVE SYSTEM	95
THE CLEARING HOUSE	101
TRUST COMPANIES	106
STATE BANKS	110
SAVINGS BANKS	112
BANKERS AND BROKERS	115
POSTAL SAVINGS SYSTEM	119
BUILDING AND LOAN ASSOCIATIONS	121

PART III

STOCKS AND BONDS, INSURANCE, TRANSPORTATION, ETC.

CORPORATIONS	127
STOCKS	131
BONDS.....	133
JOINT STOCK ASSOCIATIONS.....	138
THE STOCK EXCHANGE	139
INSURANCE.....	145
FIRE INSURANCE	146
LIFE INSURANCE.....	150
MARINE INSURANCE.....	156
CREDIT INSURANCE.....	158
TRANSPORTATION.....	161
FREIGHT BUSINESS.....	161
EXPRESS BUSINESS.....	169
MERCANTILE AGENCIES.....	172
TELEGRAPH AND CABLE SERVICE.....	175
THE POSTAL SYSTEM.....	179
THE FISCAL SYSTEM OF THE UNITED STATES.....	183

PART I
MONEY AND ITS SUBSTITUTES

BUSINESS FORMS AND FINANCIAL INSTITUTIONS

MONEY

1. **Barter.** Barter, the direct exchange of goods for goods, has always been practised among all peoples, and is still in vogue to a limited extent everywhere; as in the "trading" at country stores—exchanging eggs and other produce for groceries and dry goods—exchanging a motor boat for an automobile, etc. But only the most savage and barbarous tribes have ever depended exclusively upon barter as a means of trade.

As civilization advanced and men began producing things that were desired by other men, this exchange of one commodity for another became more complicated. If a farmer had a surplus of wheat, and wanted to exchange it for cloth or for some other article which he could not himself produce, it was difficult to ascertain just how much wheat he should give in exchange. As the number of commodities increased, the problem became more difficult, for each commodity would have to be quoted in terms of the other.

2. **Necessity for a Medium of Exchange.** Necessity required the adoption of some medium of exchange that would make a comparison of values easy, and it is interesting to note the various articles that have passed current as money in various communities

at different times. The American Indians had their "wampum"; tobacco was used as money by the early Virginia settlers; while the skins of fur-bearing animals served the same purpose in some parts of this country at a much later date. The main fact to be observed, however, is that for ages gold and silver have been the first choice of all nations as the standards of value. "Abraham, 1900 years before Christ, weighed out uncoined silver in payment for land, and, 1900 years after Christ, gold-dust passed current as money among the 'Forty-niners' in California." * At the present day the standard monetary unit of each of the civilized nations is a fixed amount of gold or silver.

3. **Money.** Money is "that which passes freely from hand to hand throughout the community in final discharge of debts and full payment for commodities, being accepted equally without reference to the character or credit of the person who offers it and without the intention of the person who receives it to consume it or enjoy it or apply it to any other use than in turn to tender it to others in discharge of debts or payment for commodities." † Money is the basis of trade in all civilized nations. It is everywhere the **measure of value** and the **medium of exchange**. It is the life-blood of the body commercial.

The three principal functions of real money are as follows:

1. It is a measure of value—and in order to measure value it must have value in itself.
2. It is a medium of exchange—and must be everywhere freely acceptable.
3. It is a means of making deferred payments—and for this purpose it must be a legal tender.

* Dr. Sherwood.

† Francis A. Walker.

4. U. S. Standard. An Act of Congress declares that the dollar, consisting of 25.8 grains of gold 0.900 fine "shall be the standard unit of value." That is to say, a gold dollar contains 23.22 troy grains ($9/10$) of pure gold and 2.58 grains ($1/10$) of a metal alloy. The alloy neither adds to nor detracts from the value of the coin. It is easy to understand that when we say an article is worth so many dollars, we mean it is worth so many times as much as 23.22 grains of pure gold.

Our gold coins are the only form of money we have that is actually worth its face value as a commodity.

Standard bullion contains 900 parts of pure gold or pure silver and 100 parts of copper alloy.

The coining value of an ounce of pure gold is \$20.67183 and the coining value of an ounce of standard gold is \$18.60465.

The weight of \$1,000 in United States gold coin is 53.75 troy ounces, equivalent to 3.68 pounds avoirdupois.

5. U. S. Coins. The gold coins of the United States are the gold dollar (not coined since 1890); the $2\frac{1}{2}$ -dollar piece, or quarter eagle; the 3-dollar piece (not coined since 1890); the 5-dollar piece, or half eagle; the 10-dollar piece, or eagle, and the 20-dollar piece, or double eagle.

Our silver dollar contains $412\frac{1}{2}$ grains of silver $9/10$ fine; *i.e.*, $371\frac{1}{4}$ grains of the pure metal. This amount of pure silver was at one time equal in value to 23.22 grains of pure gold; but of late years silver has been much cheaper, and the silver dollar is accepted only on the strength of the credit of the Government.

The other silver coins (the half-dollar, the quarter-dollar and dime), as well as the 5-cent nickel and the copper cent, contain

still smaller proportions of *intrinsic* value, and are intended only for circulation in this country as representatives of the fractional parts of a dollar.

The gold coins stand upon their own merits as actually worth their face value, but all other coins are, like our "paper money," only *representatives* of their face value, passing current throughout the land because they are by law exchangeable for the amounts for which they are stamped.

Gold coins and *standard silver dollars* being standard coins of the United States are not "redeemable."

Subsidiary coins and *minor coins* may be presented in sums or multiples of twenty dollars to the Treasurer of the United States, or to an assistant treasurer for redemption or exchange into lawful money.

6. United States Paper Money. The paper money of the United States is of seven different kinds; namely, *U. S. Notes*, *Gold Certificates*, *Silver Certificates*, *Treasury Notes*, *National Bank Notes*, *Federal Reserve Notes* and *Reserve Bank Notes*.

United States Notes. The first paper money issued by the Government of the United States was authorized by Congress in 1861. The notes issued were called "demand notes," because they were payable on demand at certain designated sub-treasuries. In the following year provision was made by Congress to retire these notes and to issue in their place United States notes (also called greenbacks and legal tenders). These notes are issued in denominations of \$1 and upwards. They read: "The United States will pay the bearer.....dollars." They are redeemable in United States gold coin in any amount by the

Treasurer and all the assistant treasurers of the United States.

Gold Certificates. Gold certificates are issued by the Government in denominations of \$10 and upwards in exchange for deposits of gold coin and bullion. They read: "This certifies that there have been deposited in the Treasury of the United Statesdollars in gold payable to the bearer on demand." They are redeemable in United States gold coin.

Silver Certificates. Silver certificates are issued by the Government in denominations of \$1 and upwards in exchange for a deposit of an equal amount of silver dollars. They read: "This certifies that there have been deposited in the Treasury of the United States.....silver dollars payable to the bearer on demand." They are redeemable in silver dollars.

Treasury Notes. These notes were authorized by Congress in 1890, and were issued in denominations of \$1 and upwards in payment for silver at the market price. They are redeemable in United States gold coin. These notes have nearly all been retired.

National Bank Notes. These notes are issued by National banks in denominations of \$5 and upwards, and are secured by deposit with the Government of United States bonds or other securities. They read: "National Currency secured by United States bonds or other securities. The.....National Bank will pay to the bearer on demand.....dollars." They are redeemable in lawful money of the United States, and are also redeemable at the bank of issue.

Federal Reserve Notes. These notes are issued by the Federal Reserve Board for the purpose of making advances to Federal banks, and are secured by a deposit of notes and bills which have been accepted for rediscount under the provisions of the Federal

Reserve Act. They are obligations of the United States and are redeemable in gold at the Treasury Department, or in gold or lawful money at any Federal Reserve bank. They are issued in denominations of \$5, \$10, \$20, \$50, \$100.

Reserve Bank Notes. Under the terms of the Federal Reserve Act, the Federal Reserve banks are authorized to purchase, at par, limited amounts of Government bonds now owned by National banks for the purpose of securing circulation. The Reserve bank may then deposit such bonds with the Government, and receive in exchange therefor an equal amount of Reserve bank notes. These notes are issued and redeemed under the same conditions as the present National bank notes. The Act contemplates the gradual retirement of National bank notes and the substitution therefor of Reserve bank notes.

7. Legal Tender. Legal tender is money which may be legally offered in payment of a debt.

Gold coin is legal tender at its nominal or face value for all debts, public and private, when not below the standard weight and limit of tolerance prescribed by law; and, when below such standard and limit of tolerance, it is legal tender in proportion to its weight.

Standard silver dollars are legal tender at their nominal or face value in payment of all debts, public and private, without regard to the amount, except where otherwise expressly stipulated in the contract.

Subsidiary silver is legal tender for amounts not exceeding \$10 in any one payment.

Treasury Notes of the Act of July 14, 1890, are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract.

United States notes are legal tender for all debts, public and private, except duties on imports and interest on the public debt.

Gold certificates, silver certificates, and National bank notes are not legal tender, but both classes of certificates are receivable for all public dues, while National bank notes are receivable for all public dues, except duties on imports, and may be paid out by the Government for all salaries, and other debts and demands owing by the United States to individuals, corporations and associations within the United States, except interest on the public debt, and in redemption of the National currency. All National banks are required by law to receive the notes of other National banks at par.

Federal Reserve notes are not designated as legal tender, but are receivable by all National and member banks and Federal Reserve banks, and for all taxes, customs and other public dues.

The minor coins of nickel and copper are legal tender to the extent of 25 cents.

Foreign coins are not legal tender.

8. Money in Circulation in United States (U. S. Government Report, June 1, 1918):

Gold Coin (including bullion in Treasury)	\$986,515,538
Gold Certificates	908,489,947
Standard Silver Dollars	77,744,154
Silver Certificates	413,101,115
Subsidiary Silver	216,043,067
Treasury Notes of 1890	1,857,927
United States Notes	339,625,452
Federal Reserve Notes	1,583,513,760
Federal Reserve Bank Notes	13,609,235
National Bank Notes	706,162,058
Total	\$5,246,662,253
Population of continental United States estimated at ..	105,725,000
Circulation per capita	\$49.63

QUESTIONS ON MONEY

1. Define barter. Is it still in vogue? If so, where? By whom is barter used exclusively?
2. What economic demand necessitated the use of money as a medium of exchange? Name various articles that have passed current as money. Compare the 19th century B.C. with the 19th century A.D. in respect to the use of gold and silver as money. What are the standard money units of the world to-day? What is money, according to Walker? Name the three functions of money. Can you name a fourth function?
3. What is the measure of value in the United States? What is it equal to? Is our gold the only money we have that will be accepted in a foreign country at par?
4. Name the gold coins of the United States. What can you say of the gold dollar and the 3-dollar gold piece? What is the composition of our silver dollar? What was formerly the value of this amount of silver, and what is it now worth? What caused this decline in the price of silver? Name the other silver coins. Give the chief reasons why gold and silver are now used as money. What is meant by "representative money?" In what respect are all our coins, except the gold coins, like our paper money? What is "fiat money?" How are "coin" obligations of the Government redeemed? What is meant by "16 to 1?"
5. Name the seven different kinds of paper money. When were United States notes first issued? Why were they issued? What are they sometimes called? Give the wording of United States notes. How are they redeemed? What is the wording of gold certificates? How are they redeemed? What is the wording of silver certificates? How are they redeemed? Of what special benefit are gold and silver certificates to the community at large? When were treasury notes first issued? Why were they issued? How are they redeemed? What can you say about these notes regarding their circulation?
6. How does a National bank secure its circulating notes? Give the wording of National bank notes. How are they redeemed? What are Federal Reserve notes? How are they secured? How are they redeemed? What are Reserve bank notes and how are they obtained? To what are they similar? What object has the Government in view in issuing these notes?
7. What is meant by legal tender? To what extent are gold coins legal tender? Silver dollars? Subsidiary silver? Minor coins? Treasury notes? United States notes? Gold certificates? Silver certificates? National bank notes? Federal Reserve notes? Foreign coins?

8. How is money put into circulation by the Government? How much money of each denomination was in circulation June 1, 1918? About what is the per capita circulation of the United States? What is meant by the currency of a country? What is the difference between the volume of the currency of a country and the cash circulation of the country?

CHECKS

9. Definition. A bank check is a written order on a banking institution, drawn by a depositor, directing the payment of a specified sum of money to a person named, or to his order—or, sometimes, to the bearer. It is payable immediately upon presentation, if the depositor has sufficient funds to his credit.

DO NOT DETACH.

THIS CHECK IS IN
SETTLEMENT OF THE
FOLLOWING

IF INCORRECT PLEASE RETURN

DATE INVOICE DISCH.

June 1 1916 00

STEWART'S
OLD STANDARD

PHILADELPHIA June 21 1916 No. 38046

FRANK H. STEWART ELECTRIC CO.

PAY TO THE ORDER OF L. B. Moffett \$150.00

ONE HUNDRED FIFTY DOLLARS

PENN NATIONAL BANK
PHILADELPHIA

Frank E. Hatcher
Frank H. Stewart

REC'D
FEB. 27 1916

10. Form of Bank Check.

11. The Deposit and Check System. The use of checks is a prominent feature of modern business. Firms and individuals whose business involves the handling of any considerable amount of money avail themselves of the advantages of the system by having an account with some banking institution, depositing each day the checks, money orders and cash which they receive (keeping on hand in the cash drawer only a sufficient amount to make

change and to meet such current expenses as they may wish to pay in cash) and drawing their own checks upon the bank, from time to time, in making payments.

12. Advantages. The advantages which a merchant derives from having an account at bank are :

1. The safe-keeping of his money. If he kept large amounts at his place of business over night, he would be in constant danger of loss by burglary, or would have to provide, at considerable expense, for guarding it.

2. Convenience in making payments. In paying by check he avoids the trouble and the loss of time involved in handling and counting out large amounts in bills and coin, as well as the risk of loss by mistakes.

3. Facilities for collecting. If the merchant were obliged to send his clerks to various parts of the city and country to collect the cash for the various checks, drafts and money orders he receives, it would consume a great deal of time and labor ; but, when he deposits these, the bank does the collecting for him, saving him all this trouble. The bank also collects for him such drafts as he may draw upon his debtors in distant places, charging him only a small fee for the service, and sometimes without charge.

4. A paid check bears the indorsement of the payee, and is, in itself, the best evidence that the payee has received his money.

5. Facilities for borrowing. By keeping an account at bank the merchant establishes an acquaintance with the institution, which enables him to borrow money upon his personal note, or by discounting the notes received from his customers. For, while the lending of money by discounting notes, etc., is a prominent part of the business of a bank, the bank will discount only for its

own depositors with whose character and responsibility it is well acquainted.

6. A bank reference is often useful in establishing one's credit.

13. Opening an Account at Bank. It must not be supposed that a bank will open an account with any one who may desire it. The prospective depositor must obtain an introduction to the bank officers by some one known to them, and must satisfy them that he is a person of proper character and responsibility. If the interview proves satisfactory, the "account" is accepted. The new depositor then writes his name (in the style in which he will sign his checks) in the "Signature Book," or on a filing-card, so that the bank may be able to guard against forgery. He then makes his first deposit, and the receiving teller gives him a pass-book, with the amount entered therein.

The pass-book is taken to the bank when a deposit is made, and the teller enters, on the debit side, all sums passed to the depositor's credit, whether cash items, discounts or collections.

Technically, the entries on the debit side are receipts from the bank for all deposits.

When the bank-book is "settled," the total amount of the depositor's checks is entered on the credit side of the bank-book, and the balance, if any, brought down on the debit side. The cancelled checks are returned to the depositor.

The larger banks no longer send for the bank-book to be left for settlement. They send each depositor at regular periods, usually monthly, a transcript of his account, made out on a special listing-machine, accompanied by his cancelled checks.

14. The Deposit Slip. Every time a deposit is made, the depositor must fill out a deposit slip, furnished by the bank, to be retained by the receiving teller and by him given to the bookkeeper.

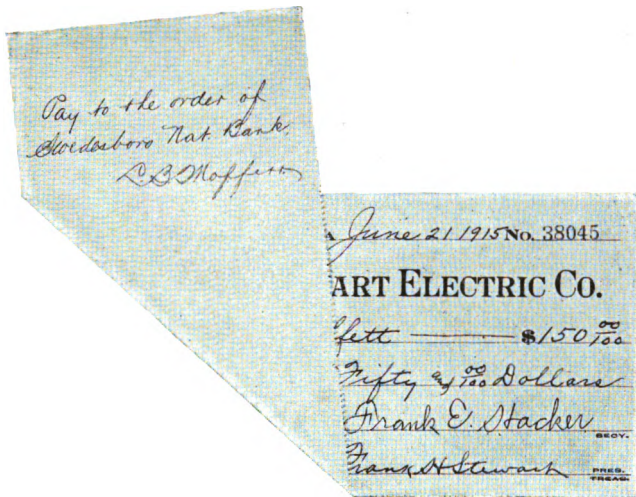
DEPOSITED AT THE MARKET STREET NATIONAL BANK		
By <u>Sammuel R. Brown</u>		
July 21st, 1915 491		
	DOLLARS	CENTS
NOTES	100	
do 1's and 2's	42	
SILVER	7	10
GOLD	100	
CHECKS (in Philadelphia name the BANK out of town name the PLACE.)		
Chicago, Ill.,	710	49
Cincinnati, Ohio.,	72	87
New York,	40	
Trenton, N. J.,	71	48
	1148	89

15. Form of Deposit Slip.

16. Indorsing for Deposit. The checks intended for deposit must first be indorsed. The form of indorsement preferred by banks is: "Pay to the order of.....National Bank." This form of indorsement passes title in the check to the bank, which is thus able to take such steps as are necessary for its collection. The indorsement is written or stamped across the back of the check, close to the left (or stub) end.

If the merchant receives a check in which his name is incor-

rectly written, he should first indorse it as it is written, and under that write his name correctly.



17. Indorsement on Check.

18. Entering the Deposit. When the checks have been thus prepared for deposit and the deposit slip made out, it is an excellent plan to make a copy of the deposit slip upon the stub of the check-book, or in a special book kept for that particular purpose, before sending the deposit to bank. The record should include the name of the maker of each check, the name of the indorser, if any, and the name of the bank drawn on, so that it may be easily traced, or replaced, if lost.

The checks, money, deposit slip and pass-book are then taken to the receiving teller, who, after examining the deposit slip to see that it is correct, enters the amount in the pass-book, which he at once hands back. This entry is his receipt for the amount deposited.

Forward 10866.75

Bank Book
 settlement 6-1-15
 Check Book bal. 10366.75
 cks. outstanding
 No. 15 80.—
 No. 16 300 —
 No. 19 519.50 899.50
 11266.25
 Bank Book bal. 11266.25
 O.K.

Deposited June 1, 1915
 Cash 800.—
 Coupons 100.—
 ck. Boyd 25.20
 ck. Jones & Co. 48.70
 ck. Smith & Co. 425.— 1398.90
 11765.65

June 2, 1915
 Bank collected draft
 on Sewell & Co. 750.—
 12515.65

No. 22

Phila. June 1, 1915.

S. E. Jones

Bill $\frac{1}{18}$ chg. Gen. Exp.

9 30

No. 23

Phila. June 1, 1915.

A. J. Lewis & Co.

Bill $\frac{1}{10}$ chg. Engine Room

8 82

No. 24

Phila. June 1, 1915.

R. J. Summers & Co.

Bill $\frac{1}{11}$ chg. Mdse.

1043.95

11471.70

1025 83
 1043 95

19. Method of Keeping Check-book.

No. 22 Philadelphia, Pa. June 1, 1915.The Central National Bank ³⁻²⁶

OF PHILADELPHIA.

Pay to the
order of S. E. JonesNINE DOLLARS AND THIRTY CENTS Dollars\$ 9.³⁰ Student & Co.No. 23 Philadelphia, Pa. June 1, 1915.The Central National Bank ³⁻²⁶

OF PHILADELPHIA.

Pay to the
order of A. J. Lewis & Co.EIGHT DOLLARS AND EIGHTY TWO CENTS Dollars\$ 8.⁸² Student & Co.No. 24 Philadelphia, Pa. June 1, 1915.The Central National Bank ³⁻²⁶

OF PHILADELPHIA.

Pay to the
order of R. J. Summers & Co.ONE THOUSAND TWENTY FIVE DOLLARS AND EIGHTY THREE CENTS Dollars\$ 1025.⁸³ Student & Co.

20. The Check-book. It is of the utmost importance that the check-book should be correctly kept. It is the guide to one's bank account, and a merchant should be able to tell from it exactly how much money he has in bank, at any moment.

A check-book, to be of any value, must be "kept up;" that is, all deposits must be recorded as soon as made, and each check subtracted as soon as given.

If your bank does not mail you, at regular intervals, a statement of your account, your pass-book should be left at the bank for settlement at the end of each month, or oftener, if your account is very active.

When you have received your statement or bank-book from the bank, observe whether the bank's balance agrees with the figures in your check-book. It sometimes happens that the bank-book will show a larger balance than the check-book on a certain date. This probably means that some check or checks given by you, and subtracted in the check-book, had not as yet been presented at the bank for payment. In this case, the bank's balance should be greater than the check-book balance to the amount of the unreturned checks.

Arrange in order the returned checks (it is a good plan to paste them back in the book), and note which checks are outstanding. The check-book balance, plus the outstanding checks, should equal the bank-book balance. If it does not, there is an error somewhere, and the check-book must be audited back to the time when it last agreed with the bank.

A careful record of all deposits should be kept, either by recording the items on the stub of the check-book, as shown on page 16, or by keeping a copy of the deposit slip in a special book provided for that purpose, or by keeping a duplicate deposit slip. This enables a check to be traced if any difficulty arises.

In the illustration on pages 16 and 17 the figures at the top on the left represent the balance brought forward from the previous page.

Then follows an illustration of the manner in which the check-book balance is reconciled with the balance as shown by the bank-book.

Next is shown the record of a deposit, which is added to the amount brought forward.

Then follows the collection of a draft, the bank having given credit for same by extending the amount in the bank-book, the previous entry in the bank-book having been made "in short."

When checks are drawn singly, each should be subtracted at once. Where a number of checks are drawn at the same time, it is more convenient to subtract the total of three checks in one sum.

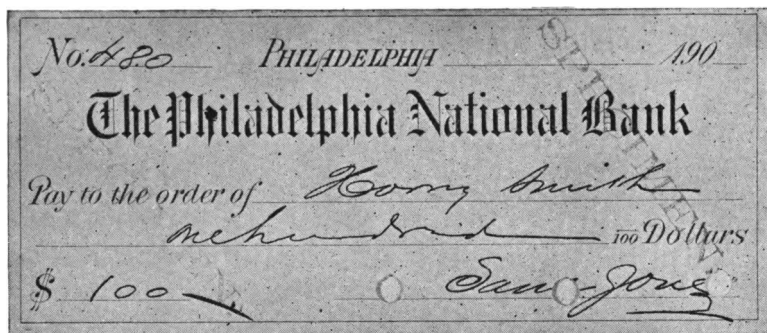
21. Checks as Vouchers. Money is placed in a bank for safe-keeping, and, as the bank becomes responsible for it, no part of it will be paid without the written order of the depositor; that is, his check. Although the money belongs to the depositor, he cannot withdraw any part of it without a check. The bank must have a voucher for every dollar that it pays out, and, when these vouchers are returned to the depositor (when his pass-book is balanced), he can see that they are his own written orders for all money paid out by the bank on his account.

22. Drawing Checks. All checks should be numbered, so that you may be able to account for each one in the check-book.

In filling out a check the amount is written twice, once in words and once in figures. No blank spaces should be left where the amount is given, so that the check may not be "raised" by any dishonest person into whose hands it may come. Write the figures of the amount close together, and begin the words at the extreme

left end of the line, filling the remaining space to the right with a waved line.

23. Check "Raising." The best way to prevent the raising of a check is to use one of the various mechanical devices available for the purpose. These machines print the amount of the check with indelible ink, and at the same time roughen the paper by small perforations, so that erasure is nearly impossible. "Safety paper," having a tinted surface which shows any erasure, is largely used.



24. Form of Check which can be "Raised."

If the drawer fails to take ordinary precautions to prevent a check from being raised, the bank may disclaim responsibility. If, on the other hand, the drawer has taken the necessary precautions and the check gives evidence of having been raised, the bank may be held responsible.

In the illustration given herewith, the space between the dollar sign and the first figure leaves room for the insertion of any figure from 1 to 9, and the space to the left of the words "one hundred" leaves ample room for another word, such as "Fifty," which would raise the check to \$5100. In case a check thus carelessly drawn were "raised," the drawer would be the loser.

25. Stopping Payment. Payment of a check may be stopped by the drawer at any time before it is presented at bank by notifying the bank and giving a full description of the check. This is often done when a check has been lost, in the mails or otherwise, or stolen. If, after receiving notice, the bank pays the check, it is responsible.

26. "To Order." Checks are usually drawn to the *order* of an individual, a firm or a corporation, so that they cannot be used except by the proper person. A check so drawn must be indorsed by the payee before it can be collected. (If a bank should pay out money upon a forged indorsement, the bank itself would have to bear the loss.)

If the payee desires to transfer the check to another person, he may either write on the back of it, "Pay to the order of Henry Brown," and sign his name (this is called a full indorsement), or he may simply sign his name on the back (called a blank indorsement), which makes it payable to bearer.

If the payee applies to the bank to cash the check, he must be known to the paying teller, or else be identified by some one who is known at the bank. One way to obviate the necessity for identification is for the payee to indorse the check in the presence of the drawer and have the latter add the words "indorsement guaranteed" and sign his name.

When the bank returns the cancelled checks to the drawer at the time of balancing his pass-book, those which were drawn payable to order (and consequently indorsed by the payee) serve as receipts for the amounts so paid.

27. "To Bearer." Checks are sometimes drawn payable to "bearer," when the person to whom the check is to be given is

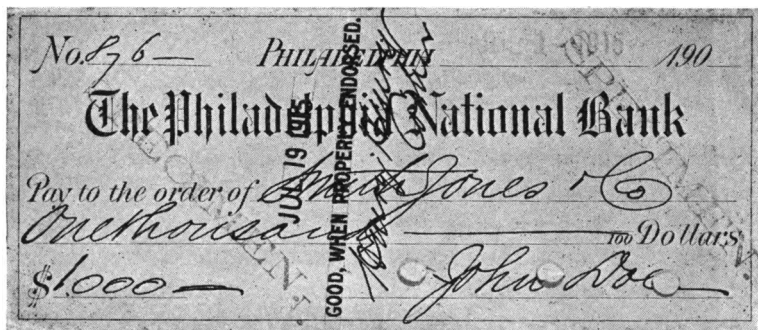
not known at the bank, in order that he may cash it without identification. But there are many banks that make it a rule to pay no money to strangers under any circumstances. They require that every person presenting a check for payment must be identified, if not known to the paying teller, and must indorse the check (as a receipt)—no matter how it is drawn. The indorsement shows to whom the money was paid, and, in case of payment of a forged or raised check, the bank has a much better chance to recover the amount.

28. Certification. There are many transactions, involving the transfer of a large amount of valuable property for cash, in which an ordinary check is not satisfactory to the person who is parting with his property (as, for example, large amounts of stocks or bonds, or the title-deeds to extensive real estate); for, however well satisfied he may be as to the financial standing of the drawer of the check, the person who receives it is not absolutely sure of his money until the check has been presented at bank. Yet to procure and hand over the actual money would be an unnecessary trouble, as the drawer can have the check "certified" by presenting it at the bank, and it then becomes practically a "banknote" for the amount—more convenient to handle than the same amount in bills or coin, and safer, because it cannot be collected without the indorsement of the payee.

The paying teller (or sometimes the cashier) "certifies" a check by writing or stamping across the face of it "certified" or "good" or "good when properly indorsed," and signing his name. The bank at once charges the amount of the check to the account of the drawer, credits "Certified Checks" for the amount, and the check becomes a liability of the bank.

Certified checks are required in transactions with the Government, and as a deposit when bidding on contracts, etc.

There are other circumstances in which the *holder* of checks for very large amounts has them certified before depositing them, in order that he may draw against them the same day. A bank would very naturally be unwilling to have one of its customers with a balance of, say \$5,000, to his credit, deposit \$50,000 in checks and then immediately draw out \$40,000 in cash before the bank had opportunity to find out (by presenting them for collection) whether the checks were good or not; but, if the checks were certified, they would be as good as cash.



29. Certified Check.

Wall Street business is the best illustration of this feature of certification. Many Wall Street firms receive and pay out checks aggregating hundreds of thousands of dollars in a single day. Much of this vast business is done upon a strictly cash basis, by means of certified checks.

30. **Over-certification**, while expressly forbidden by the National banking laws, is practised in financial circles in the following manner: A broker may buy a block of stock or bonds for a customer amounting to a large sum of money, say \$50,000. He

must pay for these in cash, yet he may have only \$10,000 in bank. If he is well and favorably known to his own bank, that is, if his reputation is high, the bank will certify his check with the distinct understanding that his account must be made good before 3 o'clock of the same day. If the broker should fail to make good his promise, he would lose his reputation, and would not be trusted further by the banks.

A depositor sometimes requests the bank to certify his check for a small amount, intending to send the check to some distant place where he is not well known, and desiring certification in order that the check may be more readily negotiated there. In such a case the bank may refuse to certify, as certification is not intended for such a purpose. The proper thing for him to do in such a case is to obtain a bank draft.

31. Volume of Exchanges. The use of checks is a benefit to the community at large, as well as to those who use them, for they add to the circulating medium, leaving actual money for minor transactions. They are in far more extensive use than any other form of money order. They often pass from hand to hand as money before they reach the bank, and then are seldom cashed—usually deposited. More than three hundred million dollars of checks daily in one city (New York) are not cashed at the paying teller's window, but pass in "exchanges" through the Clearing House, thus saving an immense amount of time and labor, which otherwise would be spent in handling and counting the money, and also avoiding numerous mistakes.

QUESTIONS ON CHECKS

1. Define a bank check. Give the wording of a check. What is the "deposit and check system?"
2. Name five advantages of keeping an account at bank. Tell in what respect each is an advantage. Why will the bank not open an account with every one who may desire it? What is necessary on the part of the depositor? Describe the process of "opening an account at bank." What is

the "bank pass-book?" (Ask to see one.) Explain the use of the pass-book. What do the entries on the debit side constitute? What method do some banks use instead of settling the pass-book at the end of each month? How is the pass-book "settled" at the end of the month?

3. What is the deposit slip? Give wording of a deposit slip. Will the bank receive a deposit without a slip? How should the items of the deposit be classified? How should checks be entered on the deposit slip? In depositing express money orders, postal orders or interest coupons, how should they be listed?

4. Before checks are deposited, what is necessary? What is the customary form of indorsement? May they be indorsed in blank? Where should the indorsement be placed? Must the payee always indorse the check? If the payee's name is incorrectly written in the check, how should it be indorsed? If the payee is unable to write, must he indorse the check? If so, how is it done?

5. Before sending the deposit to bank, what should the depositor do? Mention three ways in which this can be done. What should this record include? Why? What are handed to the bank? What does the receiving teller do? Does he give a receipt for the money deposited?

6. Where does a depositor usually keep a record of his bank account? When should he make the entries in his check-book? What information does he obtain from this record in the check-book? What is meant by a check-book being "kept up?"

7. How often is the bank pass-book balanced? What should be done when the pass-book or statement from the bank is received by you at the end of the month? Do the balances always agree? If the balances do not agree, which should be the larger? Why? How do you know when both are right? If the amount of the outstanding checks makes up the difference between the pass-book balance and the check-book balance, what should be done? If the outstanding checks do not make up the difference, how should you proceed to find difference? What is meant by "reconciliation of bank pass-book with bank account?"

8. How does a depositor draw his money from bank? Checks serve as vouchers in a two-fold sense; explain. Why should checks be numbered? How is the amount written? Why is this? What precautions should be observed?

9. What is meant by "raising" a check? What methods are sometimes used to prevent it? Why is it important to make use of some safeguard? If a check is raised and the bank pays it, upon whom does the loss fall?

10. By whom may the payment of a check be stopped? What is the procedure for stopping payment of a check? If the bank pays a check after receiving notice to stop payment, what redress has the depositor?

11. How are checks usually drawn, and why? When so drawn, what is necessary before collection? If a bank pays a check that is genuine, but with

a forged indorsement, whose loss is it? What is a full indorsement? Blank indorsement? If the payee goes to the bank to cash a check, what is necessary? Name a way in which this may be obviated. When a check is payable to bearer, must the payee be identified? What is the usual custom? Is the "bearer" asked to indorse the check when cashed? Why? What objections are there to making a check payable to "bearer?" (a) Payee's objection; (b) bank's objection; (c) drawer's objection? Under what circumstances would a check "to bearer" be desirable?

12. Is an ordinary check always a satisfactory means of settlement? Why not? How can it be made satisfactory? What does a check, when certified, practically become? How is a check certified? (Three ways.) What bank officers certify? How does the bank treat certification? What transactions require the use of certified checks? Why do governments, States, cities, etc., require a contractor, when bidding on a contract, to deposit a certified check with his bid? After the contract has been awarded, what becomes of the certified checks of the unsuccessful bidders? Of the successful bidder? Does the holder of a check ever have it certified? For what reason? If the check had indorsers and the holder had it certified, what effect would it have on the indorsers? How is Wall Street business done on a strictly cash basis? What is the penalty for over-certification by National banks? Is it ever practised by banks? How is it done? Does a bank assume any risk by over-certification? Is it a safe practice? What other use is sometimes made of certification? What is more appropriate for this purpose?

13. How is the use of checks a benefit to the community? How does their use compare with other forms of money orders? What is the volume of New York exchanges? What advantages are gained by the use of checks?

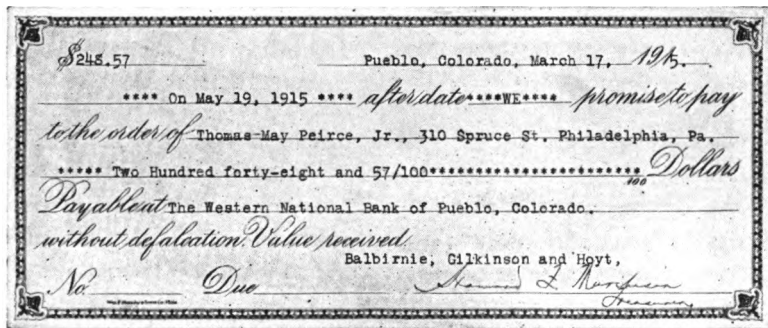
14. What care should be exercised in selecting a bank? How many deposits does a firm usually make during the day? What is the custom regarding the depositing of checks? How long is a check good? A certified check? Is a check legal tender? Does a check pay a debt? What is a post-dated check? Write a check for seventy-five cents. Is a check drawn in pencil good? Write a check to draw money for a pay-roll, and illustrate how to obtain the money from the bank in the proper denominations. A check is returned to you marked "No funds;" explain. What would you do? When may an employee sign a firm's checks? How should they be signed? What is a "Power of Attorney?" You gave your check to Reed for \$100; Reed gives the check to Walton; Walton transfers the check to you; what would you do with the check? Why should not the holder of a check have it certified, but require the drawer to do so? What is a "finger print signature?" What is a "mark signature?" Why should it be witnessed? What methods do some depositors use to safeguard their signatures? Give five forms of indorsement. If you give a check on First National Bank in favor of Lewis T. Long, and he loses it, what should you do if he asks you for another? If you go to the bank and identify the holder of a check who

wishes to get it cashed, and the check proves to be worthless, can the bank hold you liable?

Brown transfers a check to you by a blank indorsement. How can you protect yourself in this case, if it is too late in the day to deposit it? You are Treasurer of the Peirce School Building and Loan Association, and you receive a check drawn payable to the order of the Peirce School Building and Loan Association. How should you indorse the check? The words "indorsement guaranteed" are sometimes found stamped on the back of canceled checks. What is meant? Is it necessary that your check be written on the prescribed blank form? If you so desire, may you have printed your own form of check? You receive a forged check from B. C., which you in good faith indorse and get cashed. The bank finds out that it is a forgery; can they hold you responsible?

PROMISSORY NOTES

32. Definition. A promissory note is a formal written promise to pay a certain sum of money on demand or at a specified time.

**33. Form of Promissory Note.**

34. Use. Promissory notes may be given in settlement for goods purchased in order to insure prompt payment at a specified time. They may be given in settlement of an account to fix the amount of the balance agreed upon and a time for payment of the same. They may be given as security for money borrowed, and are especially valuable as security when there is a good indorser to guarantee payment.

35. Parties. The *maker* of a note is the person who signs it, and thus becomes responsible for its payment. The *payee* is the person to whom, or to whose order, it is made payable. An *indorser* of a note is any person who writes his name on the back of it, and by so doing guarantees its payment.

36. Payable at Bank. Notes are often drawn payable "at the.....Bank." These words in the note authorize the bank to pay it, and the bank will do so if the maker has a sufficient amount on deposit, charging the amount to his account without further notice from him. The paid note will be returned to the maker along with the checks which are returned to him when his pass-book is balanced.

37. Place of Payment. If no place of payment is specified in the note, it must be presented for payment at the maker's place of business during business hours; if he has no known place of business, it may be presented to him for payment at his residence.

38. Maturity. The day of maturity is the day on which a note becomes legally due. In Pennsylvania, when the time expressed in a note expires on a Sunday, or a legal holiday or half-holiday, it is not legally due until the next business day; and a note cannot be protested on a Saturday (which is a legal half-holiday), but is payable on the next business day.

Thus, if Friday were a legal holiday, a note whose time expired on that day would legally mature on the following Monday.

It is a growing custom, and one preferred by banks, to make notes payable on a definite day, rather than so many days or months after date.

39. Protest. When a note is presented for payment at maturity and is not paid, it is usually protested. A protest is a

formal statement by a notary public, declaring that the note was presented for payment and was refused.

40. Object of Protest. Since the object of protest is to hold the indorsers, in order that the money may be collected from them if the maker of the note fails to pay, only those notes that bear one or more indorsers are protested. A note that has no indorsers need not be protested.

41. Indorsement. An indorsement is literally "anything written on the back of an instrument pertaining thereto;" but legally it is restricted in its application. Judge Hare, in his admirable treatise on Bills and Notes, defines indorsement as "the writing of the name of the holder of a note or bill on the back thereof with intent to transfer the right under the instrument to the indorsee, followed by a delivery to him for his use." The person who thus writes his name is called the indorser, and the person for whose benefit the name is written is called the indorsee. As there is no limit to the number of times a paper may be transferred, so there is no limit to the number of times it may be indorsed; and, if the back be entirely covered with indorsements, an additional paper called an "allonge" may be fastened for the purpose of receiving more.

An indorser who may wish to transfer title to the note to another person, and, at the same time to avoid liability, may write the words "Without Recourse" over his indorsement.

42. Collection. A person desiring to secure payment of a note through his bank should place the note in bank in ample time for the bank to notify the maker of the note that payment is expected when due. If the maker of the note resides in the same place as the depositor, two weeks is perhaps sufficient; but, where the maker resides at a distant point, a month is not too much.

When placing a note in bank for collection, the payee uses a

“ simple indorsement ; ” that is, he simply writes his name or the name of his concern on the back of the note.

THE MARKET STREET NATIONAL BANK 1107 MARKET STREET PHILADELPHIA, PA. Mr. Charles R. Edwards, 110 No. 10th Street, Philadelphia, Pa. Your note for \$700 cts 51 is due and payable August 5th, 1915 the LAST DAY. NOTES MUST BE PAID IN MONEY OR BANK DUE BILL

Notice Sent by Bank to Maker of Note

43. **Advantages and Disadvantages.** The advantages of obtaining a note from a debtor are:

(a) He is more likely to pay the amount at the specified time, in order to save the note from going to protest and thus injuring his credit.

(b) The amount of the claim is fixed beyond any chance of dispute.

(c) A note is *prima facie* evidence of a debt, and, should suit be necessary to collect same, the note itself is the only evidence that need be offered.

(d) The note may be used as a means of raising money, by discounting it at bank.

The disadvantages of a note are:

(a) The holder cannot proceed to collect it until it matures, no matter what changes may take place in the meantime in the financial or business affairs of the maker, due either to misfortune or dishonesty.

(b) A note is really not a payment until it is paid, even though it may have been discounted; consequently, a note should not be accepted unless one feels sure that the maker will pay it when due.

44. Discounting. A merchant who may hold a note given him by a debtor may realize money on it by discounting it at his bank, provided his credit is such that his bank feels warranted in granting the accommodation.

The merchant indorses the note, thus making himself responsible for its payment at maturity, and the bank gives him credit for the net proceeds; that is, for the sum which remains after deducting the discount from the face of the note.

The method of computing bank discount depends upon State laws, and, in some cases, upon local customs. In Pennsylvania, bank discount consists of interest on the face of the note from the date of discount to the date of maturity, including both dates, which results in giving the bank an extra day's interest. In New York, the banks do not charge for the extra day.

45. Risk in Discounting. When a merchant has discounted at bank notes of his customers aggregating a large amount, he runs the risk of being called upon, as an indorser, to pay back to the bank the amounts of any that may be protested for non-payment when due, and the demand may come at a time when he is not prepared to meet it—thus seriously inconveniencing him and crippling his business, and, if he cannot readily raise the money, injuring his own credit. To guard against this, he should endeavor to be prepared to meet any such contingencies by keeping a fair amount of cash at all times in bank.

The stocks or bonds or other securities given with the note are kept with it, and are not the property of the one who loaned the money, and must not be used by him, except in default of payment. Some notes, however, specifically permit the holder to repledge the securities. They are *pledged* to make the loan secure, and are to be returned as soon as the loan is paid. These securities are assigned "in blank" (or are accompanied with a power of attorney), so as to be "good delivery" in the hands of the lender. If a borrower has good collateral, he would naturally prefer to borrow on this security rather than to get some friend to indorse his note, as he thus avoids being under obligation to return the favor.

49. Judgment Notes. A judgment note differs from a common promissory note in having a seal appended, with a power of attorney to confess judgment upon the non-payment of the note. The maker, by this power of attorney, authorizes the payee to have judgment entered, which is a *lien* against his real estate, and authorizes the issuing of an execution, without resort to a suit, by the ordinary course of law. A lien or charge upon real estate means a right to sell it to satisfy some claimant, no matter into whose hands it may come. When a judgment is put on record, the judgment continues a lien for such length of time as the State laws provide, usually five or six years from the date of entry. To continue the lien, the judgment must be revived before the limitation expires. So long as a judgment is not put on record, it does not have priority over other claims. The only difference is that it is good for twenty years or more, while simple contract debts are good for only six years. It is customary, therefore, to have it recorded as soon as it is received, and to revive it from time to time so as to keep it ahead of other claims.

If the obligor is married, his wife should also sign the note.

It is better to fill out the blanks in longhand, first, as a matter of identification, and, secondly because an erasure is more easily detected.

\$100⁰⁰/_x July 30 1915
One day after date I, John Thomas promise to
 pay to Francis Jones or order
 the sum of One Hundred & ^{no}/₁₀₀ Dollars with interest
at the legal rate without defalcation for value received.

And further, I do hereby authorize and empower the Prothonotary or Clerk, or any Attorney of any Court of Record in the State of Pennsylvania, or elsewhere, to appear for me and enter judgment against me for the above sum, with or without declaration, with costs of suit, release of errors, without stay of execution, and with an Attorney's fee of five per cent. added for collection fees, and I further for myself my heirs, executors and administrators waive the right of inquisition on any real estate that may be levied upon to collect this note, and do hereby voluntarily condemn the same, and authorize the prothonotary to enter upon the fieri facias my said voluntary condemnation, and I further agree that said real estate may be sold on a fieri facias, and I hereby also waive and release all relief from any and all appraisement, stay or exemption laws of any State now in force, or hereafter to be enacted.

Witness my hand and seal the day and year aforesaid.

WITNESSES:

Richard Roe
2909 S. Walnut St.
Philadelphia Pa
James Hartman
16 W. 11th St.
Philadelphia Pa

John Thomas
 Address 4016 S. Broad St.
Philadelphia Pa

Address _____

50. Form of Judgment Note.

QUESTIONS ON NOTES

1. Define a promissory note? Give the wording of a promissory note. Name four objects in the use of promissory notes. Name and define the parties to a note. What do the words "at the Bank" in a note signify? What becomes of the note after it is paid by the bank? If no place of payment is named in a note, where is it payable? What is the day of maturity? If a note matures on Sunday, or a legal holiday, when is it legally due? In writing a note, which form is preferable?

2. What is a protest? What is a "Notary Public?" (Ans: "An officer duly commissioned and holding a seal of office, who is empowered by law to note protests and certify the same, administer oaths, take depositions, acknowledgment of deeds and other instruments, and to authenticate the same by his official certificate, signature and seal.") What is the object of protesting a note? Why is a formal protest sometimes desired, even though the note has no indorsers? What is the "Instrument of Protest?" "Notice of Protest?" "Protest Fees?" Who pays the protest fees? The protest fees are not always the same on all notes, why is this? As an indorser on a note, what should you do if you received a "notice of protest?" You hold a note which is due to-day and the maker refuses to pay it; the note has an indorser; tell how you would proceed to have it protested.

3. What is indorsement? Give Judge Hare's definition. How often may a note be indorsed? What is an allonge? How can a note be transferred and the indorser avoid liability on it? What is this indorsement called? When would you take a note with this indorsement? Is it commonly used? What is the meaning of the words "Without Recourse?" Can you name any other kinds of indorsement?

4. How should you proceed to get your bank to collect a note for you? How should it be indorsed? How may it be indorsed? When should notes be placed in bank for collection? How does a bank collect out-of-town notes? What does a bank charge for collecting notes? When you place a note in bank for collection, should you make any entry in your books for it? When should the entry be made and where? If the note is returned to you protested, what would you then do? What entry? Will the bank collect notes for anyone but its depositors? You place a note in bank for collection, with L. C. Jones as maker, for \$500. When the day of maturity arrives, Jones cannot pay it, but comes to you and tells you he would like you to take care of it for him and will give \$100 on account of it. How should you proceed? Would you ask him for the amount of the discount on the new note? Name four advantages in obtaining a note from a debtor.

5. Why are notes discounted? What is the proper procedure to get a note discounted at bank? Explain: interest, face of a note, proceeds, days of discount, "call loans," third party. In Pennsylvania why is the day of discount added when computing discount on a note? What is the custom

in New York? What is the rule regarding Sundays and holidays? Does a merchant ever get his own note discounted? What is single-name paper? Two-name paper? What is the general rule of some banks regarding single-name paper? In taking a note from a customer should you ask him for the discount on it? Why? How is it usually paid? What care do banks use in discounting notes for their customers? Would a bank loan a depositor \$1500, on his note, with which to buy an automobile? What are collateral loans? What are financial statements, and why do some banks require their customers to file one before they will make them a loan? What information does a bank get from this statement? What qualifications recommend a merchant to a bank from the standpoint of a borrower? What risk does a merchant run in having the notes of his customers discounted? What is the usual length of time for which a bank will loan money on a note? Why is this? Will a bank lend money on real estate? If not, why not?

6. What is an accommodation note? Are they used extensively? Are they enforceable as between the original parties? Are they enforceable when they get into the hands of a "holder in due course?" There are four ways of obtaining money on an accommodation note. Which is the best way to write the note from the standpoint of the person who is loaning his credit? Why? Which form is most generally used by banks? Is it a good practice to indorse notes for accommodation? Why not? Some men make it a rule never to indorse notes for accommodation for any one: Is this a good rule? Why? You have discounted Smith's note for \$500 at your bank and the note is protested. What amount must you pay the bank?

7. Define a collateral note. What can be used as collateral? Why is the amount of security usually in excess of the amount borrowed? How much in excess? Is the lender at liberty to use the collaterals? Can he in turn borrow money on them from someone else? What is meant by hypothecating stock? Can stock that has been hypothecated be re-hypothecated? Why is it preferable to borrow money on collateral security rather than by securing an accommodation indorser? What is meant by security? Securities? May a note serve as collateral? There are several forms of collateral notes in use by the different banks. Why this lack of uniformity?

8. How does a judgment note differ from a common promissory note? What does "confess judgment" mean? What is meant by a lien upon real estate? How long does a judgment continue a lien? What is necessary before the end of that time? Why is it customary to have it recorded? How long is a judgment note good? How can a judgment be made a lien on personal property? Why are judgment notes sometimes written "One day after date I promise to pay?" When would you get a judgment note from a debtor? When would you give a judgment note to a creditor? What is meant by "Fi. Fa.?" What is a "writ of execution?" What is meant by "right of inquisition?" What becomes of a judgment note after it is put on record?

If the maker of a judgment note fails to pay it at maturity, what course should the holder pursue?

9. Who may become a notary public? How? A non-negotiable promissory note is transferred by assignment. Give wording of an assignment. How are interest-bearing notes discounted? Name the disadvantages of taking a promissory note. After a note is due and unpaid, is it good? Would you take a note that is past due? When does a note draw interest? Name the advantages of holding a note already due, rather than in taking a renewal. Name the holidays in Pennsylvania. What is an instalment note? Write one, and receipt for the first instalment. What should be done with an instalment note as each instalment becomes due? Can an instalment note be transferred? If you held an instalment note for \$1000, payable in four instalments of \$250 each, and the first two instalments had been paid, could you transfer the note for the balance? How would you write an interest-bearing note? If you lost a note and the day of maturity arrived, what would you do? Is a note made on Sunday good? Is a note made by a minor good? What is a demand note? How long is it good? What is a bond of indemnity? What is meant by a defence in law? Set off? You gave your note to James B. Dixon, which he placed in bank for collection. The note is due to-day, and at 3:30 o'clock you remember that you should have made settlement for the note. The bank is closed, what would you do? What is meant by nominal due date? Legal due date? What is a holder in due course? What is a joint and several note? Joint note? If an endorser is compelled to pay a note, to whom does he look for payment? Tell how you would receipt for part payment of a note. Why is not an ordinary separate receipt sufficient?

10. A note is worded "I promise to pay" and is signed by two persons. What kind of note is it, and for what amount is each responsible? Wm. Fox owes you a bill for \$175. He has the reputation of not paying his bills, but he has property. Would it be advisable to get a note from him in settlement, or to rely on the open book account? State the advantages, if any, of making your notes payable at your own bank. Are there any disadvantages? How long is a note good? What is the Statute of Limitations? What is "note kiting"? How are "note kiting" and "check kiting" looked upon by the banks? What is meant by lifting a note? Overdue note?

DRAFTS

51. **Draft.** A draft is a means of collecting a debt, and consists of an order drawn by the creditor (the drawer) on the debtor (the drawee) directing the latter to pay a third party (the payee, usually a bank) a certain sum of money.

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

 \$1000⁰⁰/₁₀₀ Phila, Pa. July 25, 1915
 Pay to the order of As eight
fifteen hundred #Dollars
 Value received and charge the same to account of
 To R. B. Smith & Co.
 No. 52 Jason St. Brown, Jones & Co.
 St. Louis, Mo.

52. Form of Draft.

Brown, Jones & Co.

Pa. July 25, 1915
 Pay to
 #Dollars
 same to account of
Brown, Jones & Co.

53. Back of Draft.

When a business man purchases goods on credit, the time of payment (30 days, 60 days, etc.) is usually agreed upon between the buyer and the seller. When the time elapses and the bill is not paid, the buyer may expect to be drawn on, but it is customary

for the creditor to notify the debtor of his intention to draw on him, and to give him the opportunity of avoiding the draft by sending his check.

54. Time. Drafts may be drawn with reference to time in four ways:

1. At sight.
2. A certain number of days after sight.
3. A certain number of days after date.
4. Upon arrival of goods.

The first is a sight draft, the second and third are called time drafts, and the fourth is called an arrival draft.

55. Sight Drafts. Sight drafts are payable immediately upon presentation to the drawee.

56. Time Drafts. Time drafts are payable at a future time, and are presented for acceptance.

57. "Acceptance" is the written acknowledgment of the drawee that he agrees to the conditions named in the draft and promises to pay it when it becomes due. To accept a draft, the drawee writes or stamps across the *face* the word "accepted" (and the date, if the draft is payable "after sight"), and adds his signature. He may also name the bank where it is to be paid; but, if no place of payment is named in the acceptance, it is to be presented for payment, when due, at the drawee's office. When the drawee has accepted the draft, he is called the acceptor, and the draft becomes an "acceptance."

Form of acceptance of a draft
payable "after date."

ACCEPTED
JOHN SMITH

Form of acceptance payable
at bank.

ACCEPTED
SEPT. 4, 1915
PAYABLE AT

FIRST NATIONAL BANK
JOHN SMITH

Form of acceptance of a draft
payable "after sight."

ACCEPTED
SEPT. 4, 1915
JOHN SMITH

58. "No Protest." If the drawer does not wish to have the draft protested in case of non-payment, he pins to it a piece of paper with the words "No Protest" upon it. (Blank drafts are sometimes printed with a coupon bearing the words "No Protest," and perforated so that it may be easily detached.) The object of this is to notify the bank presenting the draft that the drawer does not wish it protested if not paid, as he does not care to incur the expense of the protest charges. Of course, this slip of paper is to be detached before the draft is presented, for the draft would lose its "force" if the drawee knew that it would not be protested. (For explanation of "protest," see paragraphs 39 and 40.)

59. Payable at Bank. When a bank receives a draft for collection, it has no desire to irritate the party on whom it is drawn. It may call the drawee on the telephone and courteously tell him about the draft, asking his pleasure in the matter, or it may send a notice on a form substantially as follows:

FORM 210		All Notes or Drafts must be paid in CASH or BANK DUE BILL.	
THE MARKET STREET NATIONAL BANK			
No. 1107 Market Street			
Philadelphia, <u>July 21st, 1915.</u> 191			
<u>Messrs. Longworthy & Co.,</u>			
Please call at this Bank, and accept pay draft drawn on you			
by <u>Messrs. Everett, Wednell & Co.,</u>		<u>New York City</u>	
sight for <u>Nine hundred</u>		<u>Dollars.</u>	
<u>\$900</u>	Due	<u>James J. Fitzpatrick</u>	Drawer
N. B.—BEFORE 3 O'CLOCK TO-DAY.			

60. Notice of Draft.

If the draft is payable "at sight," the drawee, provided he does not refuse to honor it, will either pay the amount in cash, or

write or stamp upon the face of the draft a form of acceptance similar to the following, which makes it an order upon his bank to furnish the money to the payee:

ACCEPTED
Payable at
FIRST NATIONAL BANK
JOHN SMITH

61. Force of the Demand. The drawee will either have to pay the draft or suffer loss of credit. For, if the draft is protested for non-payment, it advertises the fact that the drawee is either unable or unwilling to pay his debts.

62. Difference between a Draft and a Check. A check is practically a sight draft upon a bank; but there is a marked distinction between a check and a draft in the following particulars:

(a) The form and wording differ.

(b) A check is drawn upon a bank or banker; a draft is drawn upon an individual or a mercantile firm.

(c) A check is used for paying money to a creditor; a draft is used as a means of collecting from a debtor.

(d) A bank is bound to pay a check when properly drawn and presented, if it has funds belonging to the drawer; a merchant is under no compulsion to honor a draft if he does not choose to do so.

63. Arrival Draft. This form of draft is used in connection with long-distance shipments. It is due and payable when the goods arrive at their destination. The bill of lading for the goods is attached to the draft, and the buyer cannot get possession of the goods until payment is made.

64. Illustration. Jones and Company, of Chicago, sell a car-load of flour to Smith and Brown, of Philadelphia. The terms of sale are "arrival draft." Jones and Company make a draft payable "upon arrival of car," attach the bill of lading to the draft, and deposit it in their Chicago bank. The Chicago bank forwards the draft to its correspondent bank in Philadelphia, which, upon its receipt, notifies Smith and Brown that they hold a draft against them for a certain amount, payable upon arrival of car. The amount of the draft corresponds with the invoice that Smith and Brown received from Jones and Company when the shipment was made. Nothing further is done with this draft until the arrival of the car, notification of which is sent to Smith and Brown by the railroad. Smith and Brown then pay their draft, obtaining possession of the bill of lading, and may get their goods from the railroad. The Philadelphia bank returns the amount to the Chicago bank, and the latter credits the account of Jones and Company with the amount of the draft.

CUSTOMER'S DRAFT	FARMERS STATE BANK 68-200		
	LARNED, KANSAS. <u>June 30</u> 191 <u>5</u> NO. <u>2508</u>		
	<u>On arrival</u>		
	PAY TO THE ORDER OF <u>Ourselves</u>		<u>1370</u> 90
	<u>Thirteen hundred seventy and</u>		DOLLARS
VALUE RECEIVED, AND CHARGE SAME TO THE ACCOUNT OF			WITH EXCHANGE
TO <u>Shane Bros. & Co. Phila., Pa.</u>			<u>George M. Mearns & Co.</u>

65. Form of Arrival Draft.

Occasionally the buyer will accept a sight draft on long-distance shipments, but he demands a liberal discount for advancing the money. If the seller needs the money immediately, he

may arrange with his bank whereby the latter will give him credit for the full amount at once and charge interest until the returns are received.

66. Other Uses. An investor may wish to purchase some securities from a bond house at a distance. The broker may send the securities, accompanied by a draft for the amount, to his bank, which will, in turn, send it to the investor's bank. When the investor pays the draft, the securities are handed over to him.

ALL DRAFTS ARE PAYABLE IN MONEY OR BANK DUE BILLS	
THE FOURTH STREET NATIONAL BANK	
131 to 141 South Fourth Street	
PHILADELPHIA, _____ 191	
Mr. _____	\$ _____
Please call, ON ARRIVAL OF GOODS, and pay a draft, with Bill of Lading attached for Car	
No. _____	drawn on you by _____
If payment is refused on arrival of goods, kindly notify us, stating the reason.	
R. J. CLARK, Cashier.	
(BRING THIS NOTICE WITH YOU TO WINDOW NO. 17.)	

Notice of Arrival Draft.

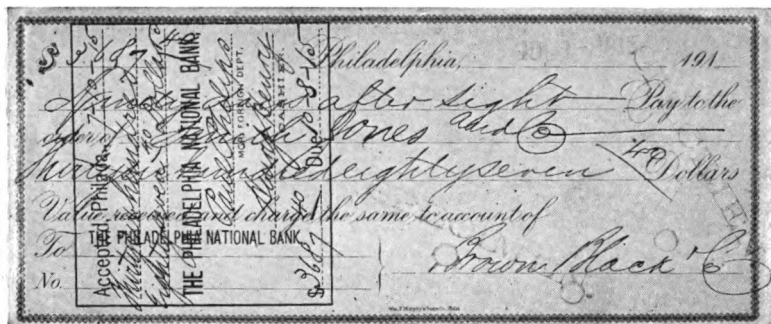
67. Bank Acceptances. Until the passage of the Federal Reserve Act of 1913, the function of accepting bills of exchange, either domestic or foreign, and of discounting accepted bills, was a line of business undeveloped in this country, although it was quite a common thing in other countries, particularly in England, London being predominant as the acceptance market for the foreign trade of all nations.

Under the provisions of the Act above mentioned, member banks may accept drafts, or bills of exchange, having not more

than six months to run, which grow out of transactions involving the importation or exportation of goods, or out of transactions involving the domestic shipment of goods. (In the latter case, the draft must have bill-of-lading or warehouse receipt attached.) The total of such acceptances must not exceed one-half of the combined capital and surplus of the accepting bank, although the Federal Reserve Board may specifically authorize a bank to accept up to an amount equal to its capital and surplus.

Federal Reserve banks may rediscount such acceptances maturing within three months from the time of discount.

Several States have passed laws whereby State banks and trust companies are permitted to accept drafts for both domestic and foreign business.



68. Bank Acceptance.

69. Object. The object of acceptance is to enable a bank to loan to its customers not money but credit, and to provide a substitute for the form of promissory note commonly known as single-name paper.

70. Operation. A merchant arranges with his bank whereby the latter, for a small commission, will accept drafts which the merchant may make upon it, thus becoming responsible for the payment of the draft at maturity.

The merchant takes the draft to his bank, which writes "Accepted," with the date and sometimes repetition of the amount,

over the signature of the institution, countersigned by one or possibly two officers. The bank may require the merchant to execute a trust receipt, which gives the bank a lien on the goods. If, however, the merchant's credit with the bank is sufficiently good, the bank may not require a trust receipt.

The merchant may now dispose of his draft to a bill-broker, or discount-house (as such institutions are termed in London), at the current rate of discount, and the broker may, in turn, sell the acceptance to an institution or an individual desiring a safe investment for a short period.

71. Foreign Business. The Federal Reserve Board has ruled that member banks in the reserve system may accept not only bills based on imports and exports of the United States, but also bills based on the imports and exports of one foreign country with another foreign country. They may also accept drafts or bills of exchange for three months or less, for the purpose of furnishing dollar exchange.

This ruling will stimulate the growth of the acceptance business in this country in very marked measure. Its great advantage is that it will enable banks with branches established in foreign countries to enter very intimately into the business of those countries, and to transact a large share of the banking business which was formerly handled almost exclusively by European bankers.

72. Marketability. This depends somewhat upon the credit of the drawer of the draft, but largely upon the standing of the accepting bank.

73. Life. The average life of commercial acceptances is ninety days, but maturity may range from ten days to six months.

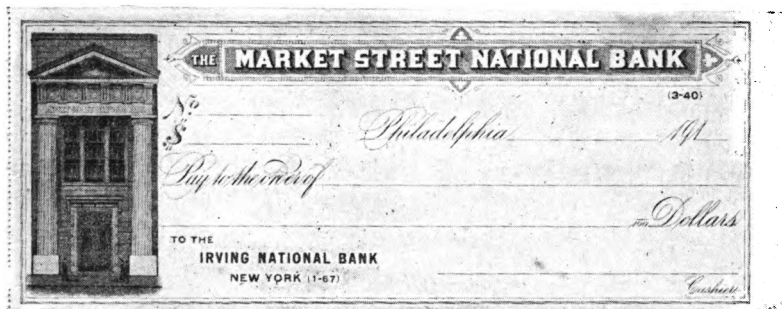
74. Advantages as an Investment. (a) It is a short-time investment of high grade, yielding a good rate of interest.

(b) It is readily convertible into cash.

(c) Behind it is the liability of the maker and the guarantee of the acceptor, and, when a trust receipt is executed, a lien on the goods involved in the transaction.

BANK DRAFTS

75. **Definition.** A bank draft is an order drawn by a bank upon another bank, usually in some other city or town. Bank drafts are usually drawn on banks in large cities, the money centers of the country. Such a draft is sometimes called "exchange," a draft on a New York bank being called "New York Exchange."



76. Form of Bank Draft.

77. **Use.** Bank drafts are employed in making remittances from one part of the country to another.

78. **Financial Centers.** A country bank keeps a deposit in its correspondent bank in its nearest financial center, and probably another account in a New York bank. The larger banks in the cities keep accounts with banks in the other large cities of the country. Every National bank is required by law to keep a deposit in the Federal Reserve bank of its particular section of the country. The banks draw upon their accounts in distant cities and sell their drafts to their customers, making a small charge, which is called "exchange." These drafts pass as cash anywhere in the

section of the country where the city upon which they are drawn is the banking center. A bank will usually furnish a draft to a depositor without making any charge for exchange.

79. New York Drafts. Drafts upon New York banks are extensively used in making remittances between various sections of the country.

This is because New York has become the financial metropolis. In it center the banking facilities of the country; in it are usually consummated the great financial transactions involved in the operations of financiers.

80. How Obtained. If Edward Smith, of Newtown, Pa., a depositor in the First National Bank, wishes to obtain a bank draft for \$3000 to remit to a creditor in Providence, R. I., he sends to his bank his check for the amount plus the charge for "exchange," if his bank makes such a charge, writing in place of the payee's name the words "N. Y. Dft. \$3000 and Exch." The bank will furnish to the messenger a draft similar in form to the following:

FIRST NATIONAL BANK		No. 342
\$3000.	Newtown, Pa., Sept. 4, 1917	
Pay to the order of.....Edward Smith.....		
Three ThousandDollars		
To the FOURTH NATIONAL BANK, New York		JOHN BROWN, Cashier

Mr. Smith will indorse the draft, making it payable to his Providence creditor, and send it to him by mail.

The object of the purchaser of a bank draft in having it drawn to his own order (instead of to the order of his creditor) is that it then acts as a direct evidence of the transaction. It settles the amount and time of the payment, and serves as a voucher when indorsed and transferred.

81. Collection. The payee will deposit it in his bank in Providence, and the bank will forward it to New York for collection. That is, the Providence bank sends the draft to its New York correspondent—say the Broadway National—to be collected and credited to the account of the Providence bank; the Broadway National collects from the Fourth National, through the Clearing House.

QUESTIONS ON DRAFTS

1. Define a draft. Name and define the parties to a draft. What is the principal object in the use of drafts? In regard to time, in how many ways are drafts drawn? What is a sight draft? What is a time draft? What is an arrival draft? What is the significance of "acceptance?" Who accepts? How? Where is the acceptance payable? Give three forms of acceptance. What does "No Protest" signify? What reasons may the drawer have for not wishing his draft protested? Why is the "No Protest" slip removed before presentation? Is "No Protest" used on checks and notes as well as on drafts?

2. What custom does the bank follow in regard to the presentation and collection of drafts? Are sight drafts ever accepted? For what purpose? Will a bank always take your check in payment of a draft? Why not? When a sight draft has been accepted payable at your bank, what does it practically become?

3. Why is the drawee more likely to honor a draft than to comply with a request for remittance? How does protest injure a drawee's credit? Name four points of difference between a draft and a check. What is the use of the arrival draft? Explain the discounting of arrival drafts with "bill of lading" attached. Why is the bill of lading good as collateral security? What other use is made of the arrival draft?

4. What are bank acceptances? When did this form of draft first come into existence? What is their object? How are they used by the merchant? How are they used by the bank? What advantages are they to the merchant? To the bank? What security has the bank in assuming this obligation? How does the merchant obtain the money on this credit? What is the ruling of the Federal Reserve Board regarding foreign business? What effect will this ruling have on the acceptance business in this country? What great advantage is claimed for them? What can you say of their marketability? For how long are they issued? What are their advantages as an investment? What banks are allowed to accept these drafts? What amount of these drafts may a bank accept? What about rediscounting these drafts with Federal Reserve banks? What action have several States taken in reference to permitting banks and trust companies to accept similar drafts for domestic and foreign business?

5. For what are sight drafts presented? Time drafts? When is each payable? Should the drawer notify the drawee that he has been drawn on? Why? Why is the place of payment not mentioned in a draft? Why do so many business men object to having drafts drawn on them? What is a bill of lading? What is an "order shipment?" Is it necessary to pin a "No Protest" slip on a check for \$3? Why? Tell how you would proceed to collect a debt by means of a draft. Is this method of collecting money used very extensively? What record do you make when you place a draft in bank for collection? Does the bank give you a receipt for it? How do you know when the draft has been collected? What entry is then made? What do the banks charge for this service?

6. Define a bank draft. Upon what banks are they drawn? What name is sometimes given to such drafts? What is "New York Exchange?" What are bank drafts used for?

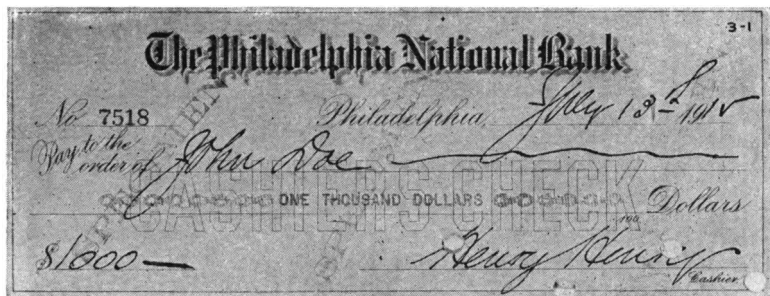
7. What gives a bank the right to draw upon another bank? What do banks charge for these drafts? Where is a bank draft available as currency?

8. What can you say of the New York drafts? Why is this? Explain how a depositor can obtain a bank draft for remittance. Why should the purchaser of a bank draft have it drawn to his own order? Can you think of any other reasons for having it made to his own order?

9. What is done with the draft by the person to whom it is remitted? How is it collected? If you are buying a bank draft to pay a bill in Denver, Colo., why would you buy a New York draft instead of one on Denver? You are a depositor in the Philadelphia National Bank and owe William Gray, of Tacoma, Wash., \$200, and wish to remit to him by bank draft. (1) Write the check with which to buy the bank draft; (2) write the bank draft and all the necessary forms. How does this method of remittance compare with the other methods?

CASHIERS' CHECKS

82. Definition. A cashier's check is an order on a bank, drawn by its own cashier. It differs from a bank draft in being drawn by the cashier upon his own bank instead of some other bank; it differs from an ordinary check in being drawn by the cashier of the institution instead of a depositor.

**83. Form of Cashier's Check.**

84. Use. The cashier's check is the check of the bank, and is used when the bank has payments to make, just as an individual issues his check, and for the same purpose; namely, to avoid handling cash. It is also issued to customers, to be used like a bank draft for remittance to nearby places; and it is sometimes issued in lieu of certification, where it is not the custom of the bank to certify.

QUESTIONS ON CASHIERS' CHECKS

1. What is a cashier's check? How does it differ from a bank draft? How does it differ from an ordinary check? How are cashiers' checks used by the bank? How are they used by the customers?

CERTIFICATES OF DEPOSIT

85. Definition. A certificate of deposit is a receipt given by a banking institution for money deposited. It may or may not bear interest. It is negotiable by the payee, and redeemable upon presentation. Checks cannot be drawn against a deposit of this nature.



86. Form of Certificate of Deposit.

87. Use. In cases where a bank does not make a practice of certifying checks for its depositors, the object of the check holder is accomplished by having the bank take up the check and issue him a certificate of deposit for the amount, in lieu of cash. In fact, certification, where it is the custom, is merely a convenient way of converting an individual check into an obligation of the bank—equivalent to a certificate of deposit (just as an accepted draft is equivalent to a promissory note signed by the acceptor—for certification is acceptance by the bank).

The use of the interest-bearing certificate is obvious; it is held as security by the person who has loaned his money to a bank or banker, the object of such loan being to receive the interest.

QUESTIONS ON CERTIFICATES OF DEPOSIT

1. Define a certificate of deposit. Are there more than one kind? Give the wording of a certificate of deposit. Do certificates of deposit draw

interest? What rate of interest do the interest-bearing certificates usually draw? Is a certificate of deposit negotiable? Can checks be drawn against a deposit of this kind? For what purpose are they sometimes issued? What is the use of the interest-bearing certificate?

POSTAL MONEY ORDERS

88. Definition. A postal money order is an order drawn by one postmaster on another, directing the payment of a sum of money to a person named by the remitter.

89. Use. The postal money order system offers to the public a safe, cheap and convenient method of making remittances by mail to all parts of the United States and its possessions as well as to foreign countries.

40100 Philadelphia, Pa. 357162
OFFICE NUMBER SERIAL NUMBER

United States Postal Money Order

1
2
5
10

THE POSTMASTER AT
Woodbury N.J.

AMOUNT IN WORDS
Five and 25/100

PAY TO THE ORDER OF
C. R. Evans

REMITTER
Geo. R. Connel

PAYING OFFICE
John A. Thornton
POSTMASTER

STAMP HERE

RECEIVED PAYMENT

40100 Philadelphia, Pa. 357162
OFFICE NUMBER SERIAL NUMBER

Coupon for Paying Office
NOT TO BE DETACHED BY HOLDER

PAYEE, WRITE IN FULL FOR DOLLARS AND CENTS
Five and 25/100

PAY TO THE ORDER OF
C. R. Evans

REMITTER
Geo. R. Connel

PAYING OFFICE
Geo. R. Connel

STAMP HERE

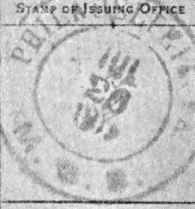
THIS MONEY ORDER IS NOT GOOD FOR MORE THAN LARGEST AMOUNT INDICATED ON LEFT-HAND MARGIN OF THE ORDER AND ANY ALTERATION OR ERASURE RENDERS IT VOID

90. Domestic Money Order.

91. Money Order Offices. Money order business is transacted by all post-offices where practicable. In 1915 there were approximately 60,000 post-offices in the United States, of which number about 40,000 were money order offices.

92. How Obtained. To obtain a money order it is necessary to fill out a printed blank provided for that purpose at the post-office. Great care should be taken to write legibly and to spell the names correctly, for a mistake might cause payment to be delayed, or perhaps occasion the loss of the money through payment to the wrong person. Money orders are issued for cash only.

93. International Money Order. An international money order is an order drawn by a post-office in one country upon a post-office in another country. The United States has made

Philadelphia, Pa.		705301	
	UNITED STATES OF AMERICA INTERNATIONAL MONEY ORDER		AMOUNT
	MANDAT DE POSTE INTERNATIONAL		\$ 5. #
	Country of payment or intermediary country <i>France</i>		IN FOREIGN MONEY <i>25 fr. 75</i>
THE POSTMASTER AT } L'Agent des Postes à } <i>Paris.</i>			
PAY TO THE PERSON NAMED IN MY ADVICE OF THIS NUMBER, THE SUM OF <i>Payez à la personne nommée dans mon avis de ce numéro, la somme de</i>			
<i>Twenty five francs</i> <i>and twenty five</i> <i>John A. Thornton</i>			
DATE OF ISSUE <i>28 191</i>		POSTMASTER <i>63</i>	
INSTRUCTIONS. —If the amount of this order is payable in France, Algeria, Great Britain and Ireland, or a British colony, the order form should be filled out by issuing postmaster and handed to remitter, who should send it to payee. The latter should present it for payment at office drawn on. If the amount is payable in any other country except Germany, the order form should be left blank, stamped "Canceled," and sent to Exchange Office by issuing postmaster with advice and coupon properly filled out. The amount will be paid on another form issued by the country of payment. If the amount is payable in Germany, both order and advice should be left blank and stamped "Canceled," and a German card order should be properly filled out by issuing postmaster and sent to the Exchange Office with filled-out coupon and canceled order and advice.			
RECEIVED PAYMENT } <i>Reçu le montant</i> }		Stamp of paying office 	

94. International Money Order.

arrangements with nearly every other country in the world for the exchange of money orders. International money orders may be purchased at all of the larger post-offices in the United States, and at many of the smaller ones.

95. Fees. The maximum amount for which a single money order may be issued is \$100, but there is no limit to the number of orders that may be issued in one day in favor of the same payee. The fees for domestic money orders range from 3 cents for amounts under \$2.51 to 30 cents for amounts above \$75. The fees for international money orders range from 10 cents for amounts under \$2.51, to \$1 for amounts over \$90.

96. Payment. A money order will be paid to the person named therein, or his indorsee, or his agent or attorney upon his written order. Domestic money orders issued in the continental United States, excepting Alaska, will be paid at any money order office in the continental United States, excepting Alaska, if presented within 30 days following the date of issue. Thereafter, payment will be made only at the office drawn on.

A money order drawn in favor of a person residing on a rural route may be paid through the carrier if entrusted to him for collection, with a written request addressed to the postmaster that payment be so made.

97. Identification. The person presenting a money order for payment, or making inquiry relative thereto, will, if unknown, be required to prove his identity before payment will be made or information given concerning the order.

98. Indorsement. More than one indorsement on a money order is prohibited, but additional signatures may be affixed for the purpose of identifying the payee or indorsee or of guaranteeing his signature. Bank stamps are not regarded as indorsements.

99. When Invalid. A domestic order which has not been paid within one year from the last day of the month of its issue is invalid, but the owner may secure payment of the amount by making application to the Post-Office Department through the postmaster at any money order office.

100. Repayment. A domestic order may be repaid at the office of issue within one year from the last day of the month of its issue. Repayment of the amount of an international order may be effected after the consent of the country drawn on has been obtained.

101. Lost Orders. When a domestic money order has been lost, the owner upon application to the postmaster at any money order office, may obtain a duplicate to be issued in its stead within one year from the last day of the month of issue.

REGISTERED MAIL

102. Advantages. The registry system provides for careful transmission to any post office in the world of money and other valuable mail, furnishes receipts to the mailer, and provides for indemnity in case of loss.

103. What Should be Registered. All valuable letters and sealed parcels, and those for which a return receipt or special care in delivery is desired, should be registered.

104. Fee. The registry fee for each separate article, foreign or domestic, is 10 cents in addition to the postage, both to be fully prepaid.

105. Return Receipts. When the sender desires a return receipt he should indorse the address side of the envelope or wrapper "Return receipt desired."

106. Indemnity. Indemnity for lost registered mail will be paid as follows:

(a) Domestic mail, first-class (sealed), up to \$50, actual value; third-class (unsealed), up to \$25, actual value.

(b) Foreign mail, amount claimed within limit of 50 francs (\$9.65), for total loss (not partial loss or rifling), of a registered article exchanged between the United States and a Postal Union country, except foreign parcel post matter and losses beyond control.

107. Forwarding and Return. The conditions under which ordinary mail is forwarded or returned apply also to registered matter. No additional registry fee is required in such case.

108. Identification. Unknown persons applying or inquiring for registered mail, as senders or addressees or their authorized representatives, will be required to establish their identity satisfactorily before the mail or information about it is given them.

QUESTIONS ON POSTAL MONEY ORDERS AND REGISTERED MAIL

1. What is a postal money order? For what is it used? What post-offices issue money orders? Do all post-offices pay money orders? What is necessary to be done in order to obtain a money order? What precautions should be observed in filling out the application blank? Why? Can you pay for a money order by check? Give reasons for your answer.

2. What is an international money order? Can money orders be sent to all parts of the world? Where can international orders be obtained? Is the same kind of application blank used for an international money order as for a domestic money order?

3. What are the fees for domestic money orders? For international money orders? What is the largest amount for which a single money order will be issued? When it is desired to send more than \$100 by money order, how is it done? Are there any limitations as to the number of money orders that may be issued to the same person, in favor of the same payee, in one day?

4. What must the payee do to get the money order cashed? Where are domestic money orders payable? How may a person residing on a rural route get a money order cashed? What about identification? What about indorsement? What about power of attorney?

5. How long is a postal money order good? How may the holder of a money order secure payment after the time for which it is good has expired? How can the owner of a domestic money order secure payment? Of an inter-

national money order? What can be done in case of loss of a money order? What safety is there in this method of transmitting money? For what purpose is the receipt given? Is a money order payable in Canada a domestic or a foreign order? Mexico? Why? In sending money to these countries, which application blank should be used?

6. What does the registry system provide for? When is it advisable to remit by registered mail? What post-offices register? What is the registry fee? How must it be paid? What is necessary in order to obtain a return receipt for registered mail? What must be marked upon the letter or package besides the address? Why? When should it be returned? Are there any circumstances under which it would be returned sooner? (If marked with the request, "If not delivered in 10 days, or 5 days," etc.) In the case of lost mail, to what amount will the Government indemnify the sender? What is the rule regarding identification? Is this mode of remittance absolutely safe? How is registered mail delivered?

EXPRESS MONEY ORDERS

100 DOLLARS	50 DOLLARS	25 DOLLARS	10 DOLLARS	5 DOLLARS	1 DOLLAR	50 CENTS	25 CENTS	10 CENTS	5 CENTS	1 CENT
-------------	------------	------------	------------	-----------	----------	----------	----------	----------	---------	--------

WHEN COUNTERSIGNED
BY AGENT AT POINT OF ISSUE

13-

American Express Company

AGREES TO TRANSMIT AND

PAY TO THE ORDER OF

THIS MONEY ORDER SHOULD NOT BE CASHED FOR STRANGERS EXCEPT ON PERSONAL IDENTIFICATION

THE SUM OF 100 DOLLARS

NOT GOOD FOR MORE THAN THE HIGHEST PRINTED NOMINAL AMOUNT IN NO CASE TO EXCEED FIFTY DOLLARS

COUNTERSIGNED

ISSUED AT _____ AGENT _____

STATE OF _____ NAME OF REMITTER _____ TREASURER _____

DATE _____ 1913.

ANY ENASURE, ALTERATION, DEFACEMENT OR MUTILATION OF THIS ORDER RENDERS IT VOID.

109. Form of Express Money Order.

110. How Obtained. Money orders are sold by the leading express companies at their various offices throughout the country. The purchaser is not required to fill out any application. He simply pays to the company the amount for which he desires the order, plus the fee, and the agent issues the order at once.

III. Safety. A receipt is given to the purchaser at the time of sale, and, if the order is lost or stolen, the full amount will be refunded on surrender of the receipt and the giving of a satisfactory indemnity.

112. Convenience. They afford a convenient means of sending money by mail. They will be cashed at face value by merchants and hotels, and may be deposited in banks without any charge for exchange.

10 POUNDS	250	100	50	25	10	5	2	1
5 POUNDS	125	50	25	10	5	2	1	
2 POUNDS	50	25	10	5	2	1		
1 POUND	25	10	5	2	1			
100 RUSSIAN RUBLES	250	100	50	25	10	5	2	1
50 RUSSIAN RUBLES	125	50	25	10	5	2	1	
25 RUSSIAN RUBLES	62.5	25	10	5	2	1		
10 RUSSIAN RUBLES	25	10	5	2	1			
5 RUSSIAN RUBLES	12.5	5	2	1				
2 RUSSIAN RUBLES	6.25	2	1					
1 RUSSIAN RUBLE	3.125	1						

UNDER THE CONDITIONS ENDORSED HEREON, No. A 1f 39

Wells Fargo & Company

AT ITS PAYING AGENCY NAMED BELOW, OUT OF FUNDS TO ITS CREDIT, WILL

PAY TO THE ORDER OF

THE SUM OF

PROVIDED SUCH SUM DOES NOT EXCEED THE AMOUNT INDICATED BY THE HIGHEST PRINTED MARGINAL GUARD, IN NO CASE TO EXCEED 10 POUNDS STERLING - 250 AUSTRIAN CROWN - 250 FRANKS, LIRE OR FINMARKS - 500 MARKS OR SCANDINAVIAN KRONOR - 125 GULDEN OR FLORIN - 100 RUBLES OR JAPANESE YEN.

To (NAME AND ADDRESS OF PAYEE)

By (SIGNED BY AGENT)

At DATE 191

IF THIS CHECK IS DETACHED FROM THE LEFT MARGINAL GUARD, OR IF ANY ERASURE, ALTERATION OR MUTILATION HAS BEEN MADE, IT WILL NOT BE PAID. SEE INSTRUCTIONS ON BACK.

113. Foreign Express Money Order.

114. Foreign Money Orders. The larger express companies also issue financial instruments payable in foreign countries. The foreign money order is practically the same in form as a domestic money order, but is payable in the currency of the country where it is cashed.

10	8	6	4	2	1	FOURTEEN STERLING OR TURKISH PIASTRES
160	200	150	100	50	25	FRANCE LIRE
210	160	120	80	40	20	MARKS OR RECHER (SCAND.)
25	100	75	50	25	15	GULDEN
100	80	60	40	20	10	PESES OR RUBLES
50	40	30	20	10	5	U. S. GOLD DOLLARS

LIMITED FOREIGN CHEQUE No 0000000

The Adams Express Company

THIS CHEQUE WILL BE PAID BY FROM OUR CREDIT BALANCE WHEN PRESENTED BY AN AUTHORIZED AGENT

AT AMOUNT IN FIGURES

TO THE ORDER OF

THE SUM OF

PROVIDED THE WRITTEN AMOUNT DOES NOT EXCEED THE HIGHEST PRINTED MARGINAL AMOUNT, ANY ERASURE, ALTERATION OR MUTILATION OF THIS CHEQUE WILL RENDER IT VOID.

THE ADAMS EXPRESS COMPANY

ISSUED AT STATE 191

COUNTERSIGNED AGENT

115. Limited Foreign Cheque.

116. Limited Foreign Cheque. This is sold by certain express companies, and is practically the same as a foreign money order.

 FOREIGN POSTAL REMITTANCE RECEIPT		2-
NOT NEGOTIABLE		
AT _____		
FOR REMITTANCE TO _____ NOT GOOD FOR MORE THAN TWENTY FIVE DOLLARS ONE THIRTY TWO CITY AND STATE OF NEW YORK FOREIGN REMITTEE _____ COUNTRY AND RESIDENCE _____ AGENT _____		
RECEIVED FROM _____ AT _____ CITY AND STATE _____ DOLLARS		191
This remittance will be forwarded to the payee named, subject to the rules and regulations of the various Post Offices used in making the Remittance. No Claim, covering non-delivery or wrong delivery of this remittance, or for failure to produce receipt, or for postage deposited for return of payer's receipt, will be considered after 90 days from date thereof.		

117. Foreign Postal Remittance.

118. Foreign Postal Remittance. This is a service devised by the Adams Express Company to enable a person to send actual money to a person in another country, the object being to save the payee from being charged a commission or fee.

The express company advises its foreign agent most convenient to the payee's residence that a certain amount of money is to be paid to the person named. The foreign agent encloses the amount of money named in an envelope and sends it by registered mail to the payee, who signs a receipt for it.

The remitter, by paying an extra fee, may send a letter with the money.

QUESTIONS ON EXPRESS MONEY ORDERS

1. What is an express money order? What companies issue these orders? How are they obtained? What is the remitter's receipt? What is its use? How do the rates compare with the rates charged for postal money orders? What is the maximum for a single order? How long is an express money order good? Mention some of the advantages of the express money order. Why are express money orders more readily negotiable than postal money orders?

2. Can you make remittances to foreign countries by means of express money orders? What is the difference between the foreign express order and the domestic express money order? What is a "limited foreign cheque?" Its object? By whom sold? What is the "foreign postal remittance?" Its object? How is this service performed by the express companies?

MONEY BY EXPRESS

119. **Use.** One of the many valuable services rendered to the public by express companies is the transfer of actual money. The amount to be sent is enclosed by the shipper in one of the company's envelopes, the face of which is printed as follows:

Receiving Form No. 72.	
ADAMS EXPRESS COMPANY.	
Contents NOT COUNTED by Agent and ENVELOPE SEALED WITH WAX in MY PRESENCE.	
\$ 100.00	<u>G. S. Wilson</u> Agent
From <u>G. S. Wilson</u> <u>181 Market</u>	For <u>Grand O. White</u> <u>Celigny Bank</u> <u>Inf.</u>
Philadelphia, Pa. 181	
TO SHIPPER—Agents of Adams Express Company are forbidden to count the contents or to address this envelope, and must stitch and seal with wax in presence of shipper.	

120. Face of Envelope Used in Shipping Money.

The envelope is addressed by the shipper. The company's agents are forbidden to count the contents or to address the envelope.

121. **Seals.** The agent of the company, in the presence of the shipper, stitches the envelope and seals it with wax, stamping the wax, while yet soft, with a die bearing the name of the company, so that the package cannot be tampered with without leaving evidence of the fact in the shape of broken seals.

122. Receipts. Each clerk who handles the package gives a receipt for it, so that it can be traced in case of loss, and each one who receives it must inspect the seals and see that they are intact.

123. Liability. The shipper's statement of the amount of money enclosed in the envelope is accepted by the company as a truthful one. If the package is lost while in the hands of the express company, the shipper will be reimbursed for the full amount. If the envelope is delivered with the seals broken and any of the contents missing, the company is responsible.

124. Delivery. When the package arrives at its destination, the agent of the company will deliver it to the consignee when the latter is properly identified. The rules of identification are as strict as those of a bank for the payment of checks.

125. Convenience to Banks. The express companies are frequently used by banks in shipping money and securities from one city or town to another.

126. Charges. The charges are based upon the value of the shipment and the distance to the destination.

127. C. O. D. Business. The express companies are largely used for the collection of bills. A person may buy goods and order them sent C. O. D. The shipper delivers the goods to the express company, together with a receipted bill for the amount, the latter enclosed in a C. O. D. envelope which is furnished by the company.

It is absolutely safe to send goods in this manner, since the company will not deliver them until the bill is paid. The money

is returned to the shipper in the original envelope. A small charge is made for the collection, based upon the amount of the bill collected.

IF THIS C. O. D. IS TRANSFERRED TO ANOTHER EXPRESS COMPANY IT MUST BE RETURNED TO Adams Express Company AMOUNT OF BILL, \$ <u>25.00 only</u> COLLECT CHARGES FOR RETURN OF MONEY WHEN SYSTEMS INDICATE OTHER WAYS INSTRUCTIONS.	C. O. D. RECEIVING FORM No. 70.	When cash is enclosed, return by Express, Stitched, Sealed and Waybilled. No. <u>467</u> WAYBILLED TO OR VIA _____
POSTMASTER: Forward to Address on Reverse Side		
SEAL HERE SEAL HERE WHEN CASH IS ENCLOSED	GOODS SHIPPED TO <u>Mr. John J. Simpson</u> <u>962 Pacific av</u> <u>Atlantic City N. J.</u> Waybilled From <u>Phila Pa</u> Office <u>460</u> JAN 5	SEAL HERE SEAL HERE WHEN CASH IS ENCLOSED
SHIPPER'S INSTRUCTIONS.		Shipper's Name and Address on Reverse Side.

128. C. O. D. Envelope.

129. Collections. The express company will undertake to collect commercial paper, drafts, notes, etc., much in the same way as a bank, using for the purpose a collection envelope similar to the form shown herewith:

Form No. 102.	Adams Express Company.	NUMBER _____
<u>Draft \$ 18.00</u> For Collection <u>Philadelphia, Pa.</u> <u>July 7 1915</u>		
NO PROTEST		
On <u>Harmon D. Smith</u> To <u>W. J. Shields</u>		
<u>Souderton Pa</u> <u>169 West 92nd St.</u>		
		PHILADELPHIA, PA.
If the enclosed is a Note, Draft or Check, and is not paid at maturity, it should be returned at once to the office from which it was received. If a check BILLS ON ACCOUNT FOR COLLECTION, the Agent will present the same promptly, and if not paid, report the same, with reasons, to the office from which it was received, and after a reasonable time, return it if not collectible. Every Employee handling collections, must when possible examine and see that the contents are in accordance with collections on Envelopes.		
FOLLOW SPECIAL INSTRUCTIONS STRICTLY.		REMARKS:

130. Form of Collection Envelope.

QUESTIONS ON MONEY BY EXPRESS

1. How is money sent by express? Who addresses the envelope? Why? Why is the agent forbidden to count the contents of the envelope? Why is the envelope sealed with wax seals? Why is each clerk who handles the package compelled to give a receipt? Why is the company willing to assume responsibility for a sum not counted by the agent? What precautions are taken by the company to insure delivery to the proper person?

2. What is meant by sending goods C. O. D.? Explain how it is done. Is this a safe method of sending goods? How is the money returned to the shipper? What charge is made for this service? What is a "collection" in the express business?

MONEY BY TELEGRAPH

131 **Use.** The leading telegraph companies will receive money for transfer or remittance to any part of the United States, and also to many foreign countries. Since this method is more expensive than other forms of remitting, it is used only when the saving of time is the principal object.

Form 72.A

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED
NEWCOMB CARLTON, PRESIDENT.

DOMESTIC MONEY TRANSFER ORDER

If after the receipt of this domestic order at the paying office (Ellis Island, N. Y., excepted), payment cannot be made within 72 hours (exclusive of Sundays and holidays), the order will be canceled and refund made to the sender. Transfers to Ellis Island, if unpaid, will be canceled at the expiration of 8 days (exclusive of Sundays and holidays).

No. Phila July 21/1915

THE WESTERN UNION TELEGRAPH COMPANY:

SUBJECT TO THE CONDITIONS BELOW:

PAY TO Miss Ruth Reed
(The address should be full and clear. If to a woman, give postal dir. or Buena Vista)

Virginia

Jew. Del.

Eighty X Dollars

Signature J. H. Weymouth

Address Perma Bldg.

When the Company has no office at destination authorized to pay money, it shall not be liable for any default beyond its own lines, but shall be the agent of the sender, without liability, and without further notice, to contract on the sender's behalf with any other telegraph or cable line, bank or other medium, for the further transmission and final payment of this order.

(C) As the above-named payee may not be able to produce positive evidence of personal identity, I hereby authorize and direct The Western Union Telegraph Company to pay the sum named in this order, at my risk, to such person as the Telegraph Company's Agent believes to be the above-named payee.

Signature J. H. Weymouth

NOTE—Should the sender of the transfer prefer that the payee be required to produce the necessary evidence of his identity, he should sign the following:

(V) The undersigned directs that the above amount be paid only on the production by the payee of positive evidence of his personal identity.

Signature _____

Principal, \$ <u>80.00</u>	Time Filled
Premium, <u>85</u>	<u>9.15</u> a. m.
Teleg tolls, <u>65</u>	
Total, \$ <u>81.50</u>	_____ p. m.

132. Application.

133. **Application.** The person desiring to send money by telegraph fills in the application blank furnished by the company, and is required to state on the application whether he desires the payee to be identified or whether he is willing to have the company pay the amount, without delay, to the person it believes to be the proper payee.

Form 75

The Western Union Telegraph Company

APPLICANT'S RECEIPT

Received from J. H. Weymouth Philadelphia July 21/1915

to be paid to Miss Ruth Reed

at Buena Vista, Va. In General Delivery

subject to the terms and conditions of transfer order of this date.

Charges paid, \$ 1.50

J. M. Jones

134. Receipt.

135. **Payment.** The telegraph company sends a message to its agent in the city or town where the payee resides, instructing its agent to pay the proper amount of money to the person named. The agent then sends a notice to the payee, instructing him to call at the office of the telegraph company and obtain his money.

QUESTIONS ON MONEY BY TELEGRAPH

1. Can you remit money by telegraph at all telegraph offices? Where can money be sent by telegraph? When is this mode of remittance used? How does it compare with others as to expense? Explain procedure to send money by telegraph. If the party to whom the money is sent is a stranger in the locality and will be unable to furnish satisfactory identification, how can this be overcome? In case the sender desires that the money should not be paid to the payee without satisfactory identification, how is this condition met?

How is the money transmitted and paid by the company? In case the payee cannot be found, what is then done? How long will the money be held at the paying office before the order is cancelled?

THE WESTERN UNION TELEGRAPH COMPANY		Form 75
25,000 OFFICES IN AMERICA INCORPORATED CABLE SERVICE TO ALL THE WORLD		
GEORGE W. E. ATKINS, Vice-President	NEWCOMB CARLTON, President	SELVIGENE BROOKS, Vice-President
MONEY TRANSFERRED BY TELEGRAPH		
NOTICE TO PAYEE OF MONEY TRANSFER		
<u>Philadelphia, Pa. June 30th 191 5</u>		
To Mrs John Doe		
<u>Hotel Lafayette</u>		
A telegraphic order to pay you a sum of money has just been received and we shall be glad to make the payment if you will call at the office No. <u>1501 Chestnut St. between 9 A. M. 11 P. M.</u> If not paid within 72 hours (exclusive of Sundays and Holidays), the order will necessarily be canceled and the amount thereof returned to the sender. Satisfactory evidence of identity will be required.		
MONEY TRANSFER AGENT		
<u>BRING THIS NOTICE WITH YOU</u>		

136. Notification.

FOREIGN EXCHANGE

137. **Foreign Exchange.** The term "foreign exchange" is used to represent a financial credit with a banking house in another country which may be utilized by means of a check or draft, or by a cabled order.

ILLUSTRATION. A banker in New York may have funds to his credit in a Paris banking house. The New York banker is then in a position to sell "Paris exchange" to any one who may desire to send funds to France.

138. **The intrinsic par of exchange** is the value of the monetary unit of one country expressed in that of the other, based on the comparative weight and fineness of the coins, as determined by government assay. It is sometimes spoken of as the mint par.

139. **The rate of exchange** between countries varies according to commercial and monetary conditions, but the intrinsic par of gold-standard countries remains at a fixed ratio; that is, the United States gold dollar contains 23.22 troy grains and the English pound sterling, 113.0016 troy grains, or 4.8665 times the value of a dollar.

140. **Bill of Exchange.** A foreign bill of exchange is a check or draft drawn by a bank or banking house in one country upon its correspondent bank or banking house in another country.

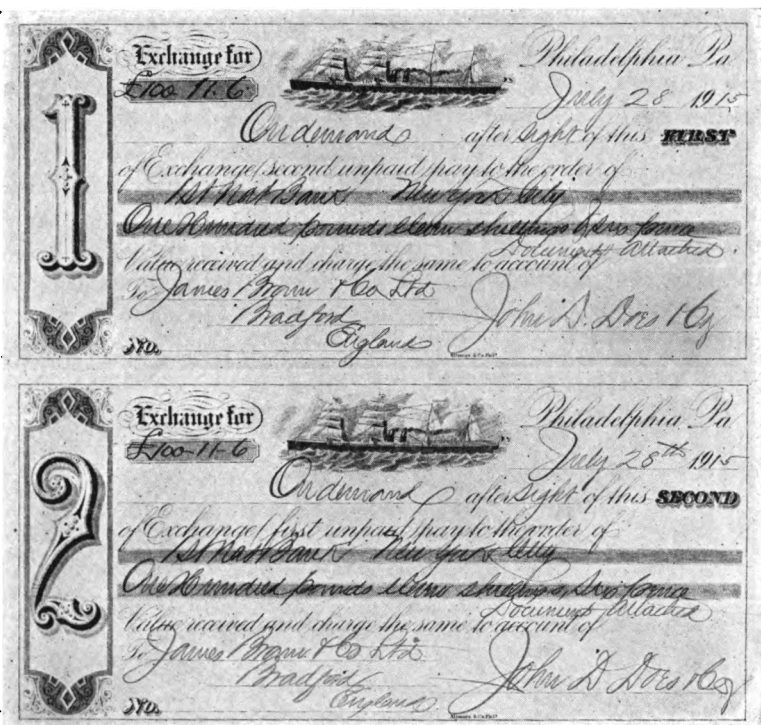


141. Foreign Bill of Exchange.

Foreign drafts are usually drawn in "sets;" that is, two bills are drawn for the same sum of money, but they are so worded that when one is paid the other becomes void. It was formerly the custom to send these bills by different routes to provide against loss or delay in transmission. At the present time, owing to the improved facilities for communication between different countries, there is little more danger of loss or delay in the case of a foreign bill than in the case of a domestic draft; consequently, the second is usually retained and is used only in case the first is lost. Some bankers draw only a single draft—called a "sola of exchange."

Foreign bills are drawn in the currency of the country where they are payable, but, aside from this, differ but little in form from domestic bank drafts.

142. Commercial Bill of Exchange. A foreign commercial bill of exchange is a draft, arising out of a commercial transac-



143. Commercial Bill of Exchange.

tion, drawn by a party in one country upon a party in another country. It may be drawn on demand, or at any number of days

after sight or after date. It may be drawn in sterling or in dollars, or in the money of the country in which it is payable. In normal times it is customary for nearly all foreign business to go through London.

A commercial bill of exchange is usually accompanied by a bill of lading for the goods concerned, and by a policy of insurance covering the goods while in transit. The bill of exchange is drawn in duplicate, and the parts are sent to their destination by different steamers, as a safeguard against loss. The bill of lading is usually drawn in triplicate, one for each part of the draft, the third being retained by the shipper.

144. Operation. A merchant in Chicago may sell 10,000 bushels of wheat to a merchant in London. He draws on the London merchant for the amount, and takes the draft to his bank, together with the bill of lading and the insurance papers. The bank buys or discounts the draft, at the current rate of exchange, and the maker thus obtains his money. The bank then sends the draft, accompanied by the papers, to a bank in London, or, possibly, to a New York bank, which in turn sends it to London. The draft arrives in London, by mail, usually before the merchandise arrives. The bank presents it to the merchant upon whom it is drawn, who pays it, if drawn at sight, or accepts it, if drawn so many days after sight or date. The bill of lading is then delivered to him, and he can obtain the merchandise.

There is now money in London to the credit of the New York bank, and against this deposit the New York bank is in position to sell exchange.

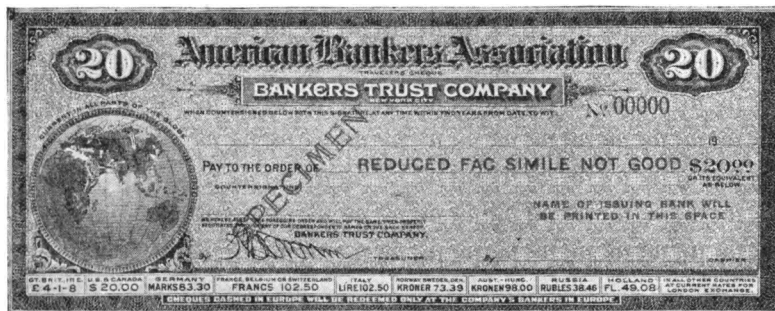
In the meantime hundreds of other similar transactions have been made in this country. Hundreds of sales have also been made to customers in the United States by merchants in other countries, for which similar drafts have been made, thus establishing in this country credits to foreign institutions.

145. Foreign Exchange Market. There is a regular market for foreign exchange in New York, and the drafts made upon the foreign banks are sold to the highest bidders. The bills to be paid abroad largely counterbalance the bills to be paid to U. S. merchants, and it is not necessary to actually ship very much money from one country to another. If, however, a bank cannot buy exchange upon a certain place, it must ship gold.

The foreign exchange market is thus in the nature of an international clearing house, by means of which the trade between nations is financed.

146. Shipments of Gold. When gold is shipped abroad it is usually sent in the form of bars, which have been assayed and stamped by the Government Assay offices. This form is more convenient than a shipment of gold coins, and there is less loss from abrasion. When the gold reaches the foreign country, it may then be coined into money of that country, if so desired.

TRAVELERS' CHEQUES



147. Form of Travelers' Cheque.

148. Travelers' Cheques. Travelers' cheques are a form of credit issued for the convenience of travelers and the protection

of their traveling funds. They are sold by express companies, tourist agencies, bankers, and steamship companies.

149. Safety. At the time of purchase the holder places his or her signature in the space provided for it on the cheque. This provides absolutely against loss, for the cheque becomes payable only when countersigned by the same person in the presence of the person cashing it.

150. Identification. Comparison of the two signatures, which must agree, establishes the necessary identification.

151. Amount. They are issued for fixed amounts of \$10, \$20, \$50, \$100, etc., with the equivalent of each denomination in the money of the principal European countries plainly stated. Payment of these amounts, without deduction, is guaranteed by the issuing company. Cheques will be paid at the "current rate of exchange" in countries not mentioned on the face. They will be paid in dollars in the United States and Canada.

152. Advantages. These cheques are cashed freely by hotels, merchants and bankers throughout the world, and the



153. Book of Travelers' Cheques.

traveler is saved the trouble of calling at some particular place for payment. He is independent of banking hours or holidays.

154. Convenience. The cheques are of convenient size, and are sold fastened in a handy leather wallet, or pocket-book, from which they may be torn as needed. The traveler can have a book of cheques made up in any amount to suit his requirements.

LETTERS OF CREDIT

155. Definition. A letter of credit is a commercial instrument issued by a merchant or banker, authorizing the bearer to draw money or obtain goods from other bankers or merchants on the credit of the person or firm issuing the letter. It is practically an introduction from one's own banker to hundreds of bankers abroad.

156. Kinds. Letters of credit are of two kinds—domestic and foreign.

DOMESTIC LETTERS OF CREDIT are issued by certain bankers for the convenience of persons traveling in the United States and nearby countries. They may be drawn against in the principal cities of the United States, Canada, Cuba, the West Indies, Mexico, Bermuda and the Hawaiian Islands.

FOREIGN LETTERS OF CREDIT are issued for the convenience of travelers in other parts of the world, and may be drawn against in nearly every foreign city of importance.

Not Exceeding **£1000**

Travel & Co.
Letter of Credit.

No. 2604 Philadelphia June 16th 1913

I hereby authorize the bearer
Mrs Adeline C. Rommel
 to value at sight or other insurance upon
 Messrs Morgan Grenfell & Co. of London, to an aggregate
 amount of **£ 400** ★ **FOUR HUNDRED** ★ Pounds
 or at option upon Messrs Morgan, Hayes & Co. of
 Paris, to the extent of Frs. **10100** ★
 Ten Thousand One Hundred (Francs)
 (Frs. 25^{cts} are to be considered the equivalent of £ 1. 10s.)

We have reference to the signature of
Mrs Rommel at foot and would
 request you to negotiate any drafts drawn in compliance
 with the terms of this credit, which drafts we engage shall
 have due honor if drawn before January 1 1914
 and their issue is entered herein.

Your charges are of course to be paid by the accredited party.
 Taking for *Mrs Rommel*
 your usual courtesies.

We are, Gentlemen,
 Your most obedient servants.

To Messieurs the Bankers
 mentioned in our List of
 Correspondents

The Signature
Adeline C. Rommel

This letter must be returned after the last draft.

157. Form of Letter of Credit.

[illegible]

158. How Obtained. Letters of credit may be obtained as follows:

1. By depositing with the banking house a sum equal to the face value of the letter, at the rate of \$5 to the pound. As the drafts are returned, they are charged against this sum, at the current rate of exchange. The difference, after making proper allowance for exchange, is returned when the letter is settled.

2. By a satisfactory guarantee of a bank, trust company, firm or individual. In this case, as advices of the drafts are received by the banker, the guarantor is notified and is expected to make immediate payment.

3. By depositing satisfactory collateral with the banker covering the amount of the letter of credit.

159. How Used. Arriving in any foreign city and desiring to draw money, the traveler goes to the office of the correspondents named in his letter of credit, signs a draft for the amount he wishes, and it is cashed by the bankers after comparing the signature on the draft with that on the face of the letter, and entering the amount on the second page of the letter. The amount for which the letter was originally issued, less the amount that has been drawn against it, which is shown by the record of payments on the second page, shows at any time the amount for which it is still good.

160. In Case of Illness. One advantage which a letter of credit offers over checks or drafts is that it can be drawn in two names, if so desired, when relatives or friends are traveling abroad. In case of sudden illness or death of one, the letter can be used by the other.

QUESTIONS ON FOREIGN EXCHANGE

1. What is the meaning of "Foreign Exchange?" What is meant by the "intrinsic par of exchange?" What is it sometimes called? What are the reasons for the fluctuations of the rates of exchange? Does the intrinsic par of exchange ever vary? Define a bill of exchange.

2. How are foreign drafts usually drawn? What is the reason for drawing more than one? What is a "sola of exchange?" What kind of money does a foreign bill of exchange call for? How else do foreign drafts differ from domestic drafts? Give the wording of a foreign bill of exchange.

3. What is a commercial bill of exchange? When are they payable? Tell how they are used. What do the banks charge for this service? A, of Chicago, sells wheat to a merchant in London. Tell how A obtains his money for the wheat before the wheat leaves Chicago.

4. What is the "foreign exchange market?" What is another name for it? Explain its advantages. How are trade balances between nations usually settled? What is meant by the "balance of trade" between two nations? What is meant by the "balance of indebtedness" between two nations? What items enter into the balance of indebtedness between two nations? How does the balance of indebtedness between nations affect foreign exchange? In what form is gold generally shipped abroad? Why? What becomes of this gold when it arrives in a foreign country? Is gold ever shipped abroad in settlement of balances?

5. For what purpose are "travelers' cheques" issued? By whom are they issued? What method of identification is employed? What safety is there in this? In what denominations are they issued? In the moneys of what seven countries is the face value of the travelers' cheque expressed? What advantages are claimed for them? In what quantities are they issued? What rates are charged for issuing the cheques?

6. What is a "letter of credit?" Name the two kinds. What is a domestic letter of credit? The domestic letter of credit is for use in what countries? What is a "foreign letter of credit?" A foreign letter of credit is for use in what countries? How may a letter of credit be obtained? How does the holder obtain money on his credit? After part of the money has been drawn, what shows the amount for which the credit is still in force? What safety is there in this method of carrying money? Why is it convenient? How is the holder identified? What special advantage has a letter of credit over travelers' cheques or drafts? What is meant by "We authorize the bearer to value upon.....?" What is "usance?" Has a letter of credit any other value outside of the money credit it possesses? Explain.

PART II
BANKING AND FINANCIAL INSTITUTIONS

BANKING

THE NATURE OF BANKING

161. What a Bank Does. A bank is, primarily, an establishment for the safe keeping of money. The business of a bank is to receive deposits, and to loan or invest its money. In the case of national banks, there is a third function, that of issuing bank-notes, or the bank's own promises to pay, for use in general circulation as a substitute for money. Thus, a banker is a dealer in money; he is an intermediate party between the borrower and the lender.

162. Services Rendered. A bank serves its customers in the following ways:

1. By receiving their money on deposit and keeping it safely for them.
2. By paying them interest on their deposits, under certain conditions.
3. By paying out their money for them as they may direct by checks drawn upon it.
4. By receiving checks, drafts, notes, etc., on deposit, and collecting for them the amounts due.
5. By loaning them money on personal security or collateral.
6. By effecting the transmission of money from one place to another.

163. Sources of Money. The money which the bank loans out is obtained from the following sources:

1. The capital paid in by the stockholders.
2. The accumulated profits which form the surplus fund.

3. The money deposited with it by its customers.
4. The circulation of its own bank-notes.
5. The money it receives in the course of transmission, and which, of course, it must repay at another place.

164. Expenses. The chief expenses of a bank are the maintenance of the building which it may own or rent, salaries, taxes, stationery and postage. To this may be added interest on deposits, if allowed.

165. Profits. The profits of a bank consist of that portion of its total receipts, including discounts, interest, dividends and commissions, which exceeds its expenses.

“A bank, in its simplest form, is an institution where money may be deposited for safe keeping; but banks are usually established to lend as well as to receive money; and the profits of a banker are commonly derived from the excess of the interest he receives from those indebted to him over the interest he allows, as far as he allows any, to those who have deposited money with him.”

THE NATIONAL BANKING SYSTEM

166. Laws. The National Banking System of the United States is based upon the National Bank Act of 1874, supplemented by the Federal Reserve Act of 1913.

167. Origin. The system owes its inception to the Civil War. The necessity of finding a market for the sale of United States bonds to replenish the Treasury, which had been drained by war, led to the adoption of the plan. The National Bank Act permitted national banks to issue notes secured by a deposit of United States bonds with the Treasury at Washington. This made it profitable for the banks to buy the bonds. Another law imposed a tax of ten per cent. on notes issued by State banks, which caused the immediate retirement of all State bank notes.

HOW A NATIONAL BANK IS ORGANIZED

168. Application. A written application is made to the Comptroller of the Currency, giving the desired title, the location, the proposed capital, and the names of at least five persons who contemplate being stockholders of the organization. A form of application for this purpose is furnished by the Comptroller.

If the Comptroller approves the application, the title applied for will be held for a period not exceeding 60 days, during which time the organization should be completed.

169. Payment of Subscriptions to Capital. At least fifty per cent. of the capital must be paid in cash before organization, and the balance, if any, may be paid in monthly instalments of ten per cent. each, dating from the time of commencing business.

170. Certificates. An organization certificate, stating the following facts, is executed and sent to the Comptroller :

1. The name of the association.
2. The location of the bank.
3. The amount of capital stock and number of shares into which it is divided.
4. The name and residence of each of the shareholders, with the number of shares he holds.
5. That this certificate is made in order that the association may avail itself of the privilege of the National Banking Laws of the United States.

171. Amount of Capital. The bank must have at least \$100,000 capital; and, in a city with a population of over 50,000 inhabitants, not less than \$200,000. But "banks with a capital of not less than \$50,000 may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed 6,000 inhabitants," and "banks with a capital

of not less than \$25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed 3,000 inhabitants." (The capital is divided into shares of a par value of \$100 each.)

172. Directors. After the execution of the organization certificates, directors may be elected who will appoint a president, cashier and other officers, and define their duties. The directors must be at least five in number.

To enable a stockholder to be eligible as a director, he must be a citizen of the United States and own in his own right at least *ten shares* of the capital stock of the bank (except in a bank with \$25,000 capital, in which case the ownership of five shares is a sufficient qualification), which shall not be hypothecated or in any way pledged for any debt; and the office of director shall be vacated upon his ceasing to be the owner of this amount of stock.

At least three-fourths of the directors must have resided in the State, Territory or District in which the association is located for a year or more immediately preceding their election, and must be residents therein during their continuance in office.

173. Certificate. Having elected officers, the organization is complete, and the Comptroller will, if he is satisfied, give to the association a certificate authorizing it to commence the business of banking.

174. May Own its Building. Though a national bank may not hold real estate, except when it may be necessary to take it to protect a previous loan, the law provides that it may own the building it occupies.

OPERATION

175. Powers. National banks, or National Banking Associations, as they are called in the Act, are invested with power to adopt and use a corporate seal; to have succession for twenty

years ; to make contracts ; to sue and be sued ; to elect and appoint directors and through them to appoint a president, cashier and other officers and define their duties ; to adopt all necessary by-laws not inconsistent with law ; to exercise such incidental powers as are necessary to carry on the business of banking.

They are allowed to do business as follows :

1. To discount and negotiate promissory notes and other evidences of debt.
2. To receive deposits.
3. To buy and sell exchanges, coin and bullion.
4. To loan money on personal security, and on collateral.
5. To make loans secured by farm land and by improved and unencumbered real estate.
6. To obtain and issue circulating notes.
7. To act as trustee, executor, administrator, or registrar of stocks and bonds.
8. To act as agent for any fire, life or other insurance company, or to act as broker or agent in making or procuring loans on real estate (when bank is located in place of less than 5000 population).
9. To accept drafts or bills of exchange (see pages 43-45).
10. To establish branches in foreign countries, or in our insular possessions.

176. Restrictions. The limitations above named are for the purpose of making them commercial institutions and to discourage the loaning of money on securities not readily convertible.

A bank may not loan to any person, firm or corporation, including in the liabilities of such company or firm the liabilities of the several members thereof, more than ten per cent. of its capital and unimpaired surplus, and the total of such loans may not exceed thirty per cent. of the capital stock. This regulation does not include "the discount of bills of exchange drawn in good faith against actually existing values, or the discount of commercial or business paper actually owned by the person negotiating the same."

177. Commercial Paper. Under the banking laws of the United States the term "commercial paper" is held to include only notes representing actual commercial transactions, bearing the names of at least two responsible parties, and maturing in four months or less.

178. Shareholders' Liability. In the case of insolvency of a National bank, each stockholder is held responsible for, and must pay if called upon, an amount equal to the par value of the stock standing to his name.

179. Reserve. Prior to the passage of the Federal Reserve Act, banks in reserve and central reserve cities were required to keep a cash reserve equal to 25 per cent. of their deposits, and country banks were required to keep a reserve of 15 per cent. of their deposits.

Under the Federal Reserve Act the reserve requirements are as follows:

A bank not located in a Reserve city shall maintain with the Federal Reserve bank of its district an actual net balance of not less than 7 per cent. of the aggregate amount of its demand deposits and 3 per cent. of its time deposits (savings accounts and certificates of deposit subject to not less than 30 days' notice, and all postal savings deposits).

A Reserve city bank shall maintain with the Federal Reserve bank of its district an actual net balance of not less than 10 per cent. of its demand deposits and 3 per cent. of its time deposits.

A Central Reserve city bank shall maintain with the Federal Reserve bank of its district a net balance of not less than 13 per cent. of its demand deposits and 3 per cent. of its time deposits.

180. Reserve Cities. The reserve cities are:

Atlanta	Galveston	Portland, Ore.
Albany	Houston	Pueblo
Baltimore	Indianapolis	Richmond
Birmingham	Kansas City, Kans.	Salt Lake City
Boston	Kansas City, Mo.	San Antonio
Brooklyn	Lincoln	San Francisco
Cedar Rapids	Los Angeles	Savannah
Charleston	Louisville	Seattle
Chattanooga	Milwaukee	St. Paul
Cincinnati	Minneapolis	St. Joseph
Cleveland	Muskogee	Sioux City
Columbus	Nashville	Spokane
Dallas	New Orleans	Tacoma
Denver	Ogden	Tulsa
Des Moines	Oklahoma City	Topeka
Detroit	Omaha and South Omaha	Waco
Dubuque	Philadelphia	Washington
Fort Worth	Pittsburgh	Wichita

The Comptroller of the Currency may designate additional reserve cities at any time.

181. Central Reserve Cities. The central reserve cities are New York, Chicago and St. Louis.

182. Over-certifying Checks. A bank is prohibited, under a severe penalty, from certifying any check drawn upon it unless the depositor has at the time on deposit with it an amount equal to that specified in the check. Over-certification is practised, to some extent, as explained on page 23, but it is not considered good banking by the better grade of bankers, and the practice will probably die out gradually.

183. National Bank-Notes. National banks have the privilege of issuing circulating notes, secured by a deposit of U. S. bonds with the Treasurer of the United States, to an amount not exceeding the capital stock of the issuing bank. The bank pays out its notes as "currency" in cashing checks, etc., and they

circulate freely through the country on a par with other forms of money.

Each bank is required to keep at all times on deposit with the Treasurer of the United States a sum equal to 5 per cent. of its circulation to be used in the redemption of its notes, and to pay to the United States a tax of $\frac{1}{2}$ of 1 per cent. each half year upon the average amount of its notes in circulation.

It is quite possible that national bank notes may be gradually retired and their place taken by Federal Reserve notes.

184. Dividends. The directors may declare, semi-annually, a dividend of so much of the net profits as they may judge expedient, but before doing so must carry ten per cent. of the net profits to its surplus fund until the latter shall amount to twenty per cent. of the capital stock.

No part of the capital may be withdrawn in the form of dividends, but the capital may be reduced by complying with the regulations provided for that purpose.

Dividends may not be paid if the reserve is below the requirement, or if the losses equal or exceed the undivided profits then on hand.

185. Surplus. It is a matter of pride with most banks to pay modest dividends, and to use the excess profits in building up a large surplus, thus making the institution stronger financially. Some States, however, have passed laws laying a tax on the surplus and undivided profits of a bank, and in such States some banks pay out all their earnings in the form of dividends, to avoid what they consider to be unjust taxation.

DISCOUNTING

186. Importance. The service performed by a bank for its customers in receiving their money on deposit, keeping it safely for them and paying it out on their checks—thus enabling them to avoid the trouble and risk attending the continual handling of

money—may often be considered by the depositors as the most important part of the business of a bank; but the bank would gain nothing by these operations but for the opportunity it has of lending out at interest a large portion of its deposits, keeping on hand only what is needed to meet the cash demands of its depositors. The discounting of notes and acceptances constitutes the most profitable part of a bank's business.

187. Notes and Acceptances. In many branches of trade it is customary for merchants to sell on credit, allowing their customers thirty or sixty days' time, and in some cases three, four, six, nine, twelve and even eighteen months. If the merchants were obliged to do without the money until they received it from their customers, they would either need to have very large capital or do a very limited amount of business. But they often get their customers to give them notes for the amounts due, and can then raise money as they need it by getting the notes discounted at bank. In other cases they draw upon their customers, making the drafts for such a number of days as will extend payment to the time when the amounts fall due, and then get the drafts discounted. The drafts, of course, must first be accepted. In some cases the merchant mails the draft (drawn payable to his own order) to the drawee, requesting him to accept and return it. In other cases the merchant sends the draft to his bank and the bank forwards it (through its correspondent) to the drawee for acceptance; if accepted, the bank may then discount it for the drawer. Drafts with bill of lading attached are sometimes discounted before acceptance.

188. Directors' Meetings. In theory, notes and acceptances offered for discount are passed upon by the directors at their regular meetings, which are held usually twice each week. In practice, however, customers cannot wait, and some responsible

officer of the bank is given authority by the directors to accept or reject paper which is offered between meetings of the board.

The loans made between meetings of the board are read at the next regular meeting and are ratified by the directors.

189. Discount. If the bank decides to accept a note which is offered for discount, the holder indorses the note, and the bank, after deducting from the face of the note a sum equal to the interest upon it from the day of discount to the day of maturity (including both dates), gives the indorser credit on his bank account for the proceeds, or pays him the money directly, if he prefers it.

190. Payment at Maturity. The note is, in effect, sold to the bank, and is its property, and it must see to it that the note is presented to the maker for payment at the proper time and place. In case it is paid when due, the indorser who had it discounted hears nothing more about it. If not paid, he is notified of the non-payment and must then pay it himself; that is, in such case he must pay to the bank the face value of the note, plus the protest fees.

191. Term of Discount. Banks prefer to discount paper having not more than three months to run, but they will discount for a longer term when there is a good reason for doing so.

Short-term paper is preferred, because there is less risk of loss, and it gives a bank greater command over its resources in times of difficulty and distress.

192. Call Loans. Money is frequently loaned "on demand," and payment of such notes, which are usually spoken of as "call loans," may be demanded at any time. Call loans are usually secured by collateral.

193. Security. Of course, banks will discount only such notes as are considered by them to be thoroughly safe, and they usually require personal security of at least two good names—one as the maker and another as the indorser; but they sometimes lend upon single-name paper, especially when well secured by a deposit of stocks or bonds, or other readily negotiable securities as collateral.

COLLECTIONS

194. Convenience to Depositors. A very important service is rendered by a bank for its depositors in collecting for their accounts the amounts due on the checks, drafts, notes, etc., which they deposit.

195. Notes and Drafts. A merchant having notes or drafts to collect simply deposits them in his bank, and the bank attends to all the details for him.

The notes or drafts which are payable in other cities are forwarded for collection to the bank's correspondents in those places. Drafts upon persons in the same city are presented for payment or acceptance at the offices of the drawees by the bank messenger. Notes payable at other banks in the same city, and drafts which have been accepted "Payable at the..... National Bank," are passed through the clearing house at maturity, and credited to the depositor when paid.

196. Checks. Checks on banks in the same city are collected through the Clearing House. A check on a bank (which we will call X) in another city or town is sent by the bank to its correspondent bank in that section of the country; X may have no account with this bank, in which case the correspondent bank sends it to another bank still nearer, and so on, the check finally arriving

at a bank with which X has business dealings. The latter bank then forwards the check to X for collection and remittance, and X remits cash or a draft for the amount.

The Federal Reserve law permits Federal Reserve banks to collect checks for their member banks, and it is quite possible that, eventually, checks will be collected largely through the reserve banks.

197. The Journeys of a Check. The following copy of indorsements on a check will serve to illustrate the journeys such a check must make before it reaches the bank upon which it was drawn:

PAY BANK OF COMMERCE, Crocker Fertilizer & Chemical Co., JAMES R. SMITH, Treasurer.
PAY BANK OF NEW YORK, N. B. A., Or Order for Account of BANK OF COMMERCE IN BUFFALO, M. F. WARREN, Cashier.
PAY NATIONAL NEWARK BANKING CO. Or Order for Account of BANK OF NEW YORK, N. B. A., E. S. MASON, Cashier.
PAY NATIONAL STATE BANK, Camden, N. J., or Order for Collection NATIONAL NEWARK BANKING CO., P. W. CRATER, Cashier.
For Collection and Remittance to the NATIONAL STATE BANK, of Camden, N. J. W. F. ROSE, Cashier.

SUPERVISION

198. Thorough. The supervision of the National banks as required by the National Banking Act is very thorough.

199. Director's Oath. Every director must take oath as to his qualifications. The oath is to the effect that he will faithfully administer the affairs of the association, and not knowingly violate or permit to be violated any of the provisions of the law, that he is the absolute owner of the number of shares required by law, and that such shares are not hypothecated or in any way pledged as security for any debt or loan.

200. Statements. The law requires that detailed statements of the condition of each National bank, verified by the oath of its president or cashier and attested by not less than three of its directors, shall be made at least five times in each year to the Comptroller of the Currency and also be published in the city or town where the bank is established; and it is further provided that each report shall be for some past day to be specified by the Comptroller, so that a bank may not prepare itself in advance to make a good showing in the report, but exhibit its actual condition.

201. Report. The Comptroller makes an annual report to Congress of the affairs of the banks.

202. National Bank Examiners. The law also provides for the periodical examination of the banks by disinterested persons to be appointed by the Comptroller. These examiners visit the banks and inspect the books of account, securities and assets and liabilities in general. They have power to examine their officers and directors under oath and inquire into all matters necessary for a full understanding of their actual existing condition, and then make immediately, to the Comptroller, a full report in writing of the result of such examination. These examinations may be as frequent as it is thought necessary, and their expense is borne

by the banks themselves. The examiners visit the banks without notice.

203. Penalties. Provision is made in the National Bank Act for enforcing compliance with certain of its provisions by the infliction of penalties for violations. All these penalties are severe.

All rights, privileges and franchises of a National banking association may be forfeited if the directors knowingly violate, or knowingly permit any of the officers, agents or servants of the association to violate any provision of the National Bank Act. In case of such violation, every director who participated in, or assented thereto, shall be held liable, in his personal and individual capacity, for all damages which the association, its shareholders or any other person shall have sustained in consequence of such violation.

204. Receivership. Among the reasons for which a receiver for a National banking association may be appointed are the following:

1. Insolvency.
2. Failure to satisfy a judgment that has been rendered and remained unpaid for a space of 30 days.
3. Failure to restore impaired capital.
4. Failure to pay in the authorized capital stock, as required by law.
5. Failure to make good lawful money reserve.
6. Failure to dispose of its own stock acquired for debt within six months from date of purchase.
7. False certification of checks.
8. Failure to redeem its circulating notes.

In addition to the foregoing, the law provides that if any director or other officer or agent of a National banking association whose charter has expired puts in circulation any bill, note, draft, check, etc., he shall be punished by a fine of not more than \$10,000, or by imprisonment, or by both fine and imprisonment.

The false certification of checks is a misdemeanor, the penalty being fine, imprisonment, or both. Official malfeasance by any director, officer, or employee of a National banking association is also punishable by imprisonment.

QUESTIONS ON NATIONAL BANKS

1. What is a bank? What is the business of a bank? What is a third function of National banks? What is a banker? Name six kinds of service rendered by banks. Name the five sources from which banks obtain money. What are the expenses of a bank? What are the profits of a bank?

2. Upon what is the National Banking System based? To what does the National Banking System owe its origin? How? What is the first step in the organization of a National bank? What information must the application contain? If the application is approved, what length of time is allowed for completing the organization of the bank? What is necessary before organization? What information is contained in the organization certificate?

3. What are the requirements with regard to capital? After the certificate has been executed, what is the next step? Who are eligible as directors, and under what conditions? How many are required? When and by whom are the officers elected? When the organization is complete, what is necessary before the association can be authorized to commence the business of banking? What real estate may a National bank own?

4. What are the powers granted to National banks or National Banking Associations? Name the seven divisions of their business. Why are restrictions placed on the business that a National bank may do? Are National banks allowed to loan money on real estate? On mortgages? What restrictions regarding the amount a National bank is permitted to loan to one person, firm or corporation?

5. What is "commercial paper," according to the banking laws of the United States? What is a shareholder's liability? What is the requirement in regard to Reserve in country banks? Reserve city banks? Central Reserve city banks? Name the reserve cities. Name the Central Reserve cities.

6. What provision does the law contain in regard to certification? What is the penalty for over-certification? What special privilege is given to

National banks? Why are National banks allowed to issue National bank notes? What is the maximum amount that each bank is entitled to issue? How are these notes put into circulation? What is the requirement regarding the redemption of these notes? In case of the failure of a National bank, what provision is made for the redemption of its notes? What may eventually take the place of National bank notes?

7. What does the law provide concerning dividends? What is the requirement in regard to surplus? How often may a dividend be declared? How much may a bank pay out as dividends? May the capital be paid out as dividends? How may the capital be reduced? If the year's business is a loss, may a bank pay dividends? Why do some banks deem it expedient to build up a large surplus? Some National banks in some States pay out all their earnings in dividends. Why is this?

8. What is the chief source of profit of a National bank? Explain how it occurs that merchants have notes and acceptances to offer for discount. What is the custom in most banks with regard to directors' meetings? What is the principal business at these meetings? Does all paper offered for discount have to be passed on at the meetings of the board of directors? How does a bank discount a note? What does a bank do with the note after discounting it? What happens if the maker does not pay the note when due? For what length of time are notes generally discounted? Why do banks prefer to discount short-term paper? What are "call loans?" How are they generally secured? What notes will a bank accept for discount? What will make single-name paper readily acceptable?

9. Explain the convenience to depositors in depositing their checks, notes, drafts, express and postal money orders, etc., in bank for collection. What does the bank do with these notes, drafts, etc., which are payable in other cities? With drafts on persons in the same city? Papers at other banks in the same city? When does the depositor receive credit for out-of-town collections? Explain how a bank collects a check for a depositor. Explain how the Federal Reserve Law provides for the collection of checks for their member banks. What advantage will result from this method of collection?

10. What can you say about the supervision of National banks? What is the nature of the oath every director is required to take? How many statements are annually required from the banks? How are these to be verified and attested? What is to be done with these reports? How often does the Comptroller of the Currency report?

11. What are National bank examiners? What are their duties? What powers have they in order to secure a true report? How often are the books examined? To whom do the examiners report? Who bears the expense of these examinations? What are the penalties for violation of the provisions

of the National Bank Act? What is the liability of the directors in case of such violations? For what reason may a receiver be appointed? What is the penalty for over-certification?

THE FEDERAL RESERVE SYSTEM

205. Federal Reserve Banks. Under the Federal Reserve Act of 1913, the continental United States, excluding Alaska, is divided into twelve districts, with a Federal Reserve bank in each district. These Federal Reserve banks are officially numbered from 1 to 12, inclusive, and are located as follows:

- | | |
|-----------------|----------------------|
| 1. Boston. | 7. Chicago |
| 2. New York | 8. St. Louis |
| 3. Philadelphia | 9. Minneapolis |
| 4. Cleveland | 10. Kansas City, Mo. |
| 5. Richmond | 11. Dallas |
| 6. Atlanta | 12. San Francisco |

A Reserve bank may establish branch banks in its own district, with the permission of the Federal Reserve Board.

206. Capital. Each National Banking Association, hereafter spoken of as member bank, must subscribe a sum equal to 6 per cent. of its paid-up capital and surplus to the capital stock of the Federal Reserve bank of its particular district. The capital stock of each Federal Reserve bank is divided into shares of \$100 each, and the total capital depends upon the amount of the subscriptions of the member banks.

207. Directors. Each Federal Reserve bank is managed by a board of nine directors. These directors are divided into classes, designated as Classes A, B and C.

Class A consists of three members chosen by the stockholding banks, as their representatives.

Class B consists of three members chosen by the stockholding banks, who must be, at the time of their election, actively engaged in their district in commerce, agriculture or some other industry.

Class C consists of three members appointed by the Federal Reserve Board, one of whom is designated as Chairman of the Board, and as "Federal Reserve Agent."

No director of Classes B and C may be an officer, director or employee of any bank, and no Class C director may be a stockholder of any bank.

208. Earnings. After the expenses of a Federal Reserve bank have been provided for, the stockholders are entitled to receive an annual dividend of 6 per cent., "which shall be cumulative." Earnings above dividend requirements are to be paid to the United States, except that one-half of such earnings shall be paid into a surplus fund until the latter shall amount to 40 per cent. of the paid-in capital of the bank.

209. State Banks and Trust Companies. Under certain restrictions, State banks and trust companies may be converted into National banks, or may retain their State charters and apply for membership in the Federal Reserve system. They are required to conform to the various regulations provided for National banks.

210. Deposits. A Federal Reserve bank may receive deposits from member banks, from the United States, and from other Reserve banks. It may not receive deposits from individuals.

211. Powers. A Federal bank has the following powers:

(a) To discount for a member bank paper bearing its indorsement, provided said paper matures within 90 days, and provided the immediate proceeds of same have been or are to be used for agricultural, industrial or commercial purposes.

(b) To discount acceptances based upon the importation or exportation of goods; said acceptances to be due within 90 days and to be indorsed by a member bank.

(c) To purchase and sell cable transfers, bankers' acceptances and bills of exchange.

(d) To deal in gold coin or bullion.

(e) To establish a rate of discount, which shall be fixed with a view to accommodating commerce and business.

(f) To establish accounts with other Reserve banks for exchange purposes.

(g) To make advances to its member banks on their promissory notes secured by approved collateral.

212. Federal Reserve Notes. A Federal Reserve bank may deposit with the Federal Reserve Agent collateral in the shape of notes and bills which have been accepted for rediscount, and may receive from the Agent an equal amount of Federal Reserve notes, which it may then put into circulation through its member banks.

213. Elasticity of the Currency. When a member bank needs money, it may rediscount notes and acceptances with its Federal Reserve bank, and the Reserve bank may, in turn, pledge these securities with the Federal Reserve Agent in exchange for Federal Reserve notes.

The rate of discount is established by the Reserve bank, but is subject to review by the Federal Reserve Board. The rate is usually slightly higher than the market rates for first-class commercial paper, so that a bank will not be tempted to borrow money

from the Federal Reserve bank for the purpose of making loans which are really not necessary to its business.

When the demand for money is heavy, the Reserve bank may advance its discount rate, which will have the effect of discouraging speculative business, and act as a sort of brake upon the tendency to expand business to a greater extent than is warranted by conditions.

When the demand for money lessens, the bank may lower its rate, which will have the effect of encouraging business.

Under this plan the amount of circulation throughout the country may increase or decrease as the needs of business may require, thus providing an elasticity which did not exist under the old system.

214. Reserve Bank-Notes. Under the terms of the Federal Reserve Act, member banks may offer for sale to Federal Reserve banks the Government bonds which they own as security for circulation. The Federal Reserve banks may be required to purchase such bonds, at par, to an amount not exceeding \$25,000,000 per year. The Federal Reserve bank may then, if it so desires, deposit such bonds with the Government and receive in exchange therefor an equal amount of Reserve Bank notes, which are in every way the same as National bank notes. If the Reserve bank does not desire to take out additional circulation, it may exchange the 2 per cent. bonds which it has purchased from National banks for 3 per cent. obligations of the Government—one-half in one-year gold notes (which may be renewed from year to year by the Government for a period not to exceed thirty years), and one-half in thirty-year bonds, without the circulation privilege.

The Federal Reserve Act contemplates the gradual retirement of National bank notes under the above procedure, and the substitution therefor of Reserve bank notes.

215. Reserve. Each Federal Reserve bank is required to maintain a reserve in gold or lawful money of not less than 35 per cent. against its deposits, and not less than 40 per cent. in gold against its Federal Reserve notes in actual circulation.

216. Collections. Each Federal Reserve bank will collect for its member banks, without charge, all checks drawn on other member banks in the same district. The method is simple. The member bank sends its checks on other member banks to the Federal Reserve bank in the form of a deposit. The Reserve bank credits the account of the depositing bank and charges the checks against the accounts of the banks on which they are drawn.

Preparations are being made to extend the system so that it will cover the entire country, and eventually each Reserve bank will collect for its member banks checks drawn on any other institution in the Federal Reserve System.

FEDERAL RESERVE BOARD

217. How Constituted. The management of the Federal Reserve System is vested in the Federal Reserve Board, which consists of seven members, five of whom are appointed by the President of the United States, the other two members being the Secretary of the Treasury and the Comptroller of the Currency. One of the five persons appointed by the President is designated by the President as Governor and one as Vice-Governor of the Federal Reserve Board.

The Federal Reserve Board is endowed with the following powers:

- (a) To exercise supervision over the Federal Reserve banks, and to examine the books and affairs of each member bank at any time, and to require such statements and reports as it may deem necessary.

(b) To require Federal Reserve banks to rediscount the discounted paper of other Federal Reserve banks.

(c) To suspend reserve requirements under certain conditions.

(d) To supervise and regulate the issue and retirement of Federal Reserve notes.

(e) To designate the cities which shall be classified as Reserve and Central Reserve cities.

(f) To suspend or remove any officer or director of any Federal Reserve bank.

(g) To require the writing off of doubtful or worthless assets upon the books of Federal Reserve banks.

(h) To suspend the operations of any Federal Reserve bank which violates the provisions of the law.

(i) To grant to National banks applying therefor permission to act as trustee, executor, administrator, and registrar of stocks and bonds.

(j) To levy upon the Federal Reserve banks in proportion to their capital stock and surplus an assessment sufficient to cover all the expenses of the Federal Reserve Board.

FEDERAL ADVISORY COUNCIL

218. How Composed. The Federal Advisory Council consists of one member from each Federal Reserve district. The council meets at least four times each year at Washington, and oftener, if called by the Federal Reserve Board.

The Federal Reserve Council has power to confer directly with the Federal Reserve Board on general business conditions; and to call for information and to make recommendations on the general affairs of the reserve banking system.

QUESTIONS ON THE FEDERAL RESERVE SYSTEM

1. What are Federal Reserve banks? Where are they located? How do they obtain their capital? How is the capital divided? What is the total

capital of each of these banks? How are these banks managed? How are the directors chosen? How are the earnings divided? Under what conditions are State banks and trust companies permitted to become members of this system?

2. Who may become depositors in these banks? What are the powers of the Federal Reserve banks? What are Federal Reserve notes? How are they obtained? How are they put into circulation? The Federal Reserve banks were established to provide an elastic currency. Explain how this is accomplished. What rate of interest is charged for rediscounting by the Federal Reserve banks? What are the chief advantages of this system to the country?

3. What are Reserve bank-notes? How are they obtained? What are these notes designed to eventually replace? What are the requirements in regard to a reserve to be maintained by Federal banks? What provision is made by the Federal banks for the collection of checks for the member banks? What is the method adopted?

4. What is the Federal Reserve Board? Of how many members does it consist? How are the members appointed? What are the powers of this board? What is the Federal Advisory Council? How many members compose this council? How often does it meet? What are its powers?

THE CLEARING HOUSE

219. Clearing House. A Clearing House is an association of banks and trust companies, having in view the following purposes:

(1) The exchange of checks and drafts among themselves, and the settlement of balances resulting from such exchanges.

(2) The promotion of their mutual welfare, by means of regulations and examinations, and the security which is the result of united action.

220. Method of Clearing. The usual method of procedure is as follows:

(1) Each institution first assort the checks, etc., which have been received in the course of business, and places those drawn upon the other members of the association in separate envelopes, one for each bank, listing the items on

a statement and writing the total on the envelope. The envelopes containing the checks are taken to the Clearing House in the morning by a *package clerk*, accompanied by a *settling clerk*.

(2) At the Clearing House there is a desk provided for each institution, bearing its name or number. The settling clerk takes his place behind the desk bearing the name or the number of his institution, and the package clerk stands in front of the desk, with a "package sheet" containing a list of the deliveries to be made to the other members.

(3) Promptly at the specified hour, usually ten o'clock, a gong sounds, and the exchanges begin. The package clerk of No. 1 bank moves to bank No. 2 and presents to the settling clerk of that bank the envelope containing the checks drawn upon it, taking his receipt therefor on the package sheet.

The package clerk of No. 2 bank has at the same time delivered to the clerk of No. 3 bank a similar envelope, and thus the whole line moves, until the package clerk of each bank has visited the desk of every other bank.

(4) The settling clerk enters on a settlement sheet the amounts that are delivered to him by other banks, and the difference between the total of the package sheet and the total of the settlement sheet represents the amount which his bank owes to the Clearing House or which the Clearing House owes to his bank.

221. Must Balance. Since the envelopes are simply exchanged among themselves, it is obvious that the balances due by the debtor banks must equal the balances due to the creditor banks.

222. How Balances are Paid. This is a matter in which each Clearing House has its own custom and rules. In New York, the

debtor banks pay their balances in cash, which is then paid out to the creditor banks. Clearing House certificates and gold certificates are accepted as cash for settlement purposes.

In Boston, a creditor bank may loan its credit balance or part thereof to a debtor bank for the purpose of settling its balance. This greatly reduces the amount of cash to be handled. The debtor bank pays interest for the sum thus used.

In Philadelphia, Clearing House certificates are used, but, as these are not issued in sums of less than \$5,000, "due-bills" are used for settling balances less than that amount. A "due-bill" is given by each debtor bank to the manager of the Clearing House. The manager deposits these due-bills in a certain bank and draws checks against them in favor of the creditor banks. These due-bills and checks are cleared in the exchanges of the following day. The banks thus avoid the risk of carrying money through the streets.

223. Clearing House Certificates. A bank may deposit gold or gold notes, or, in some cases, other currency with the Clearing House and receive in exchange therefor "Clearing House Certificates." These certificates may be used only for the purpose of paying balances at the Clearing House. The gold or currency which they represent may be counted by the bank as a part of its lawful money reserve.

The institution may deposit gold or gold notes with the Treasurer of the United States and receive in return therefor "U. S. Treasurer's Gold Certificates." These certificates, which may be exchanged at any time for gold coin, may be used for Clearing House purposes.

224. Clearing House Loan Certificates. A bank may deposit approved collateral (bonds, commercial paper, etc.) with the Clearing House and receive in return Clearing House Loan Certifi-

cates, which may be used in settling balances between banks. They bear interest, which is paid by the borrowing bank to the Clearing House, and by the Clearing House to the holding bank. Interest adjustments are made monthly. These certificates are issued only in times of financial stress, and the rate is usually high, so that the banks will retire them as soon as they are able.

225. Examinations. Each Clearing House makes its own rules and regulations. In the larger cities each association maintains a corps of examiners and each bank is subjected to periodic examinations, which are perhaps more searching than the examinations of the Government. The examiners report to the Clearing House Committee.

226. Protection Against Losses. In Philadelphia, each member of the Clearing House is required to make a deposit of approved collateral security for the purpose of protecting its daily balance. The amount of collateral required depends upon the capital stock of the institution and the amount of business done by it. If a bank defaults, the Clearing House may use this collateral security for the purpose of reimbursing any losses sustained by the other banks in the association. This custom does not prevail in other cities.

227. Benefits. The advantages of the Clearing House System are as follows:

- (1) The expense of collecting checks and other items is reduced to a minimum.

- (2) The amount of actual currency which is used in clearing is comparatively small. In New York it has averaged about 5% of the total amount of the clearings.

- (3) If a bank meets with misfortune and becomes temporarily embarrassed, the other banks in the Clear-

ing House are usually ready to lend assistance, provided the bank is solvent and the management in good repute.

(4) It provides a means by which the banks may take united action when occasion demands it. In times of panic, the various Clearing Houses have greatly assisted in the restoration of confidence by providing various ways to meet emergencies as they arose.

(5) The opportunity, through the examinations, of keeping the banks up to a high level of efficiency and solvency.

228. London Clearings. In London, the Clearing House, as well as each banker using it, has an account at the Bank of England, and the balances due at the close of each day's transactions are settled by checks.

229. Non-Members. Financial institutions, non-members of the Clearing House Association, are sometimes permitted to clear their checks through the Clearing House. The usual plan is as follows:

Checks drawn on non-member institutions are sent to the Clearing House every morning in the same manner as checks on member institutions. The Clearing House then advises the non-member institution of the total amount of its checks that have been presented. The non-member institution then sends to the Clearing House a certified check for the proper amount, receiving in exchange therefor the envelope containing the checks, etc.

Non-member institutions do not send to the Clearing House the checks which they receive drawn on other institutions, but deposit such checks with a correspondent bank which is a member of the Clearing House. Non-member institutions are always "debtor" at the Clearing House.

QUESTIONS ON THE CLEARING HOUSE

1. What is the Clearing House? What is its object? What is first done with the checks that are to be collected through the Clearing House? What are the duties of the "package clerk?" Of the "settling clerk?" Explain the method of making the clearing. How are the balances due by the different banks paid? In New York? In Boston? In Philadelphia? What are Clearing House Certificates? Clearing House Due Bills? Clearing House Loan Certificates? How is each obtained?

2. How is the Clearing House governed? What supervision does the Clearing House exercise over banks and trust companies composing this association? How often are these examinations made? What is said concerning the thoroughness of these examinations? To whom do the examiners report?

3. What security against loss does the Philadelphia Clearing House require of its members? Name and explain five advantages of the Clearing House. How do banks in London settle their Clearing House balances? How do financial institutions which are not members of the Clearing House sometimes clear their checks through the Clearing House? Do they send checks drawn on other institutions to the Clearing House? How do non-member institutions dispose of these checks?

TRUST COMPANIES

230. Nature. Trust companies are financial institutions organized under the laws of the States in which they are located. They transact a banking business in much the same manner as National or State banks, receiving money on deposit and paying it out on checks, drafts, etc. They loan money on collateral security, and purchase commercial paper where the State laws do not forbid. They act as registrars and agents for the transfer of stocks and bonds, as executors or administrators of estates, as guardians, as receivers or assignees, and in any fiduciary capacity whatsoever. Some companies also examine and insure titles to real estate. Although not permitted to issue circulating notes, they enjoyed, prior to the passage of the Federal Reserve Act, some advantages which were denied to National banks. The Act mentioned, however, permits a National bank, under certain conditions, to act as trustee, executor, administrator, or registrar of stocks and bonds.

231. Reserve. The amount of the cash reserve which a trust company must keep on hand is prescribed by the laws of the State in which it is located. Formerly, the percentage of reserve was lower than in the case of National banks, thus giving trust companies an advantage. The Federal Reserve Act, which reduced the reserve requirement of National banks, has removed much of this advantage.

232. Trustee for Corporations. A trust company will act as trustee of the mortgage by which the bonds of a corporation are secured, guaranteeing to the purchaser of said bonds that the mortgage is properly recorded and that there is no overissue of bonds. It will also assist the corporation in finding a market for the bonds.

233. Registrar and Transfer Agent. A corporation may arrange with a trust company whereby the latter, for a consideration, will take full charge of its stock transfer book. When any stock of the corporation is sold, the stock certificate is taken or sent to the trust company, which records the transfer and issues a new certificate to the purchaser.

234. Guardian. Trust companies assume charge of the affairs of minors, looking after their estates, and providing for their education and maintenance until they become of age. They collect all income due the estate, invest separately its funds, and retain the principal until the minor reaches legal age, at which time the guardian makes a special report to the court. If this is found satisfactory, the guardian is discharged, and the estate is transferred to its real owner.

235. Receiver. A trust company may be appointed by the Court to act as receiver for an insolvent concern. There is safety

in entrusting the affairs of an insolvent to a trust company, inasmuch as the entire assets of the latter are liable for any losses that may result from its mismanagement of the insolvent's affairs.

The decree of the Court appointing the trust company a receiver specifies that the company shall enter its own bond.

236. Assignee. A trust company may act as assignee for a firm or an individual. As assignee, the duty of the trust company is to conserve the assets and convert them into cash for the benefit of the creditors.

The company, as assignee, has the right to collect all outstanding book accounts, to complete any unfinished goods so as to render them more valuable when offered for sale, and, in general, to use its best judgment concerning business details which may arise. As soon as possible after taking charge, the company sends a statement of resources and liabilities to the various creditors, and sends further reports to the creditors from time to time during its administration of the business. When the business is ready for settlement, the company distributes the assets among the various creditors, giving to each the proportion to which he is entitled.

237. Title Examination and Insurance. "The transfer of land has always been a complicated matter compared with the transfer of personal property. In the latter, the possessor may transfer the title by delivery; in the former, mere possession is not sufficient evidence of title, and, as the seller of land can convey only such title as he may have, every buyer demands proof of a good title from the seller. This involves proof of the title of each prior owner back to the source of title, which in Pennsylvania is generally the Commonwealth. As, in the course of time, the number of transfers by deed, descent, judiciary sales, etc., increased, searching the title became more and more complicated and

difficult—recorded deeds could be found only by means of public indexes of the names of the parties, and, as might have been expected, very numerous errors crept into these indexes. Danger arose from the fact that if the deed was *recorded* it was legal notice to all the world, whether it was indexed correctly or incorrectly or not at all.

“Trust companies take all chances of defect in title from known or unknown causes, by insuring title from such defects; and an owner of land who holds the company’s policy insuring the fee simple title in himself is in a position to rest tranquil in his possession, and to mortgage, lease or sell his property without other delay than such as may be necessary to prepare the papers and to transfer the policy of title insurance, brought down to date, to the new purchaser or mortgagee.

“As the effect of title insurance, wherever it has been established, has been to free the transfer of real estate from most of the old clogs and render it equally easy to mortgage, and this at a less expense and with less delay than under the old plan, it is not surprising that banks, trustees and private investors, as well as owners of real estate, have been keen to appreciate the advantages of title insurance. Persons selling real estate or mortgages offer the purchaser an insured title in order to get a better price. Persons buying real estate or mortgages go to the trust companies and procure title in order to avoid delay and at the same time to secure protection against loss.” *

Investors loaning money on mortgages accept the policies of reliable title insurance companies without question. The system effects safety, economy and expedition.

238. Fiscal Agent. As fiscal agent for a corporation, a trust company redeems coupons, makes interest payments on bond

*“Title Insurance and Trust Companies,” The Land Title and Trust Co., Philadelphia.

110 BANKING AND FINANCIAL INSTITUTIONS

issues, mails dividend checks to stockholders, and takes charge of the money set aside by the corporation as a sinking-fund for the retirement of bond issues.

239. Interest on Deposits. Trust companies pay interest on deposits. The prevailing rate is 2 per cent. on accounts subject to check and 3 per cent. on time deposits. Some companies pay a slightly higher rate.

STATE BANKS

240. Definition. A State bank is a bank incorporated under the laws of the State in which it is located. It differs from a National bank chiefly in these particulars:

(1) A State bank receives its charter from the State, and is subject to the supervision of the State authorities. A National bank receives its charter from the Government of the United States and is subject to the supervision of the national authorities.

(2) State banks are not permitted to issue circulating notes. Prior to 1866, State banks issued notes similar to the present National bank notes. In the year mentioned an act was passed laying a tax of ten per cent. on the circulation of State banks, which had the effect of retiring all State bank notes.

241. Reserve. The laws of the different States vary as regards reserve requirements. In Pennsylvania, a State bank is required to keep a reserve of 15 per cent. against deposits subject to check, and of $7\frac{1}{2}$ per cent. against time deposits. Prior to the passage of the Federal Reserve Act the State banks enjoyed an advantage in having a lower reserve requirement, but, since the

passage of the Federal Reserve Act, which lowered the reserve requirements of National banks, the State banks have little, if any, advantage in this respect.

242. Loans. State banks are restricted in making loans in much the same manner as National banks. In Pennsylvania, a State bank is not permitted to make loans to one person in excess of ten per cent. of its capital and surplus. State banks may loan upon real estate security.

243. Examinations. State banks are under the supervision of the State Superintendent of Banking. They are required to make four reports yearly to the superintendent, and are examined at least twice each year by the State bank examiners. Some State bankers feel that the State examinations are more severe than the examinations of National banks.

244. Federal Reserve System. Under the provisions of the Federal Reserve Act, a State bank is permitted, by complying with certain regulations, to surrender its State charter and become a National bank, or to remain a State bank and become a member of the Federal Reserve System.

245. Loans on Book Accounts. Some State banks engage in the business of making loans secured by the assignment to them of book accounts. Interest on such loans is usually charged at the rate of six per cent., with an additional charge of six per cent. for collection fees. Under this plan the borrower assigns his book accounts to the bank and the debtors are notified to pay their accounts to the bank. The business is attended with some risk, and, notwithstanding the high rate charged for interest and collection fees, some banks have suffered considerable loss.

SAVINGS BANKS

246. Savings Banks. Savings banks are, as the name implies, institutions for the saving of money. They receive money on deposit and pay a moderate rate of interest. As a rule, they do not open checking accounts, and the depositor withdraws money by giving the prescribed notice, usually two weeks.

247. Capital. Most savings banks are purely mutual ; that is, they have no capital stock, and the assets are owned entirely by the depositors. The profits are either paid to the depositors as interest or added to the surplus for their protection. Each depositor is practically one of the owners of the institution in which his savings are deposited, in proportion to the amount of his deposit. There are, however, some savings banks that are stock companies.

248. Safeguards. Savings institutions are under the supervision of the State banking authorities, and are examined in the same manner as State banks and trust companies.

It is not the object of a savings bank to pay a large percentage of interest. Safety is the paramount consideration ; and, in order to be safe, only choice investments can be made. To these the savings banks are restricted by law, as well as by prudence and usage.

249. Management. The management of a savings bank is usually vested in a body of men appointed by the Courts, or by some other appointing power. The men selected are men of high standing in the community, and serve without pay.

*** 250. Reasons for Founding.** The reasons for the founding of savings banks are as follows :

(1) To encourage economy and thrift among the working people by providing a place where small amounts of money may be safely laid away.

(2) To enable men and women to save their money and let it make money by useful investment, rather than to have them squander it or hoard it and keep it idle.

251. Depositor's Object. The objects of a depositor in placing his money in a savings bank are:

(1) To cultivate thrift.

(2) To avoid loss.

(3) To earn interest.

252. A Fallacy. Some men object to the savings bank because they think it withholds money from circulation. This is a mistake. A savings bank does not hoard the money placed in its care, but lets it out in safe investments; otherwise it could not afford to pay interest to the depositors. The little savings, when gathered into masses and discreetly invested, serve great purposes.

253. Investments. The principal investments of the bank, as permitted by law, are:

(1) Loans on approved collateral security.

(2) Government, State, Municipal and certain other classes of bonds.

(3) Mortgage loans.

First mortgages on improved real estate have always been a favorite kind of investment for savings banks. The laws of the several States declare this mode of investment to be most desirable.

254. Safety Before Profit. Safety is the first consideration in the investments made by savings banks, and profit is secondary.

They are not, like National banks, confined to investments which are readily convertible into cash.

Government bonds are the safest of convertible investments, and so are generally the bonds of the State in which the bank is situated. Personal security of two or more names is not admissible in most States.

255. Difference between Savings Banks and National Banks.

The savings bank receives money chiefly to keep it securely for the benefit of the depositors; it usually requires two weeks' notice for all withdrawals. The ordinary bank receives deposits subject to check, makes collections for its depositors, and otherwise supplies them with business conveniences.

Savings banks pay interest on all deposits; National banks may or may not pay interest on deposits.

The aim of the ordinary bank is profit for the shareholders—gain upon the capital employed. The savings bank seeks to serve its depositors by safely keeping and investing their money for them.

The discount bank opens its doors to business men to aid them in making their exchanges, etc., and to lend them money. The savings bank opens its doors to savers; it receives and permanently invests their money.

National banks lend money chiefly upon personal security; savings banks lend principally upon liens against real property, as represented by bonds, mortgages, etc.

256. Interest. Each savings bank has its own custom in computing interest. One of the largest in the country pays interest on amounts of \$5, or multiples thereof; that is, on a deposit of \$74.50 it would allow interest on \$70. It does not allow interest for a fractional part of a month.

Interest is usually computed at the end of each calendar year,

and the depositor may then take his pass-book to the bank and have the interest credited. If he should not care to withdraw the interest, the interest remains as a deposit.

BANKERS AND BROKERS

257. Private Bank. A private bank is an institution conducted by a firm or an individual under the name of a bank. It is able to do business only so far as the credit of the owner or owners may attract it. Such banks are usually located in places too small to warrant the organization of an incorporated bank, although in the larger cities there are many private banks conducted by foreigners which do considerable business with depositors of their particular nationality.

Until lately such institutions have had no responsibility to the government, either State or National. Pennsylvania, in 1911, passed a law requiring private banks to obtain a license from the State and providing that such banks should be examined by the Commissioner of Banking at his discretion. This law was evidently directed at the small banker of foreign nationality, for it specifically exempts express or telegraph companies, hotel keepers, stock brokers, those who had been engaged in the banking business in the same locality for seven years prior to the passage of the Act, those who do not sell railroad or steamship tickets, and those who file a bond of from \$50,000 to \$100,000 with the Commissioner of Banking.

In 1914, the State of New York passed a law bringing private bankers under the supervision of the Superintendent of Banks. This law makes certain requirements as to capital, reserve, reports, etc., but, like the Pennsylvania law, it is directed against the small concerns which operate without sufficient capital.

258. Bankers. Much of the financial business of the world is done by private banking firms. The great houses of Morgan,

of New York, Drexel, of Philadelphia, and Rothschild, of Europe, are known by name everywhere, and there are hundreds of others of lesser note, which do a business approaching that of the larger banks.

They are not restricted by law in the class of business in which they may engage. Their principal business is as follows :

(1) They receive deposits and transact an ordinary banking business.

(2) They loan money, with or without collateral security.

(3) They deal in foreign exchange in all its branches.

(4) They will undertake, for a consideration, to sell an issue of bonds, which they are able to do because of their close acquaintance with the investing public.

(5) They loan large sums of money to national governments, taking in exchange therefor the bonds of said governments, which they then offer for sale to their customers.

(6) They will undertake the management of a concern which is in financial difficulties, and, by reorganizing it, endeavor to put it on its feet again.

259. Bankers and Brokers. Besides these two classes there is a third, namely, firms which are known as "Bankers and Brokers." These firms usually are members of the Stock Exchange, and, besides buying and selling stocks for their customers, carry on a general banking business—receiving money from them on deposit, and paying it out on checks. They usually allow interest on daily balances to the credit of their customers, and charge interest on debit balances. As the customers often leave with the banker, for safe-keeping, the securities in which their money is invested, the banker has no hesitancy about paying drafts or

checks in excess of the amount the customer may have on deposit, since he is so well secured.

Bankers or brokers who confine their activities along a certain line are usually designated by a name descriptive of their business. For instance, a firm which makes a specialty of bonds is called a "bond house," while a firm which buys and sells acceptances is called an "acceptance house."

260. Note Brokers. It is quite a common practice for business houses that find it necessary, at times, to borrow large sums of money, more than their own banks might care to loan them, to place their notes through "note brokers."

The brokers offer them as an investment to their customers, principally banks, and charge a commission for their services.

QUESTIONS ON OTHER FINANCIAL INSTITUTIONS

1. In what respect are trust companies similar to banks? Name various services which trust companies perform. What privilege does a National bank possess which is denied to a trust company? What amount of reserve must a trust company keep on hand? How does it compare with the reserve of National banks?

2. How does a trust company act as trustee for a corporation? How does this service benefit a corporation? The public? What is their business as "registrar and transfer agent?" What advantage is this to the holder of stock? How do trust companies act as guardians? Why are trust companies frequently appointed to act as receivers? Why are they especially valuable in this capacity?

3. What is the duty of an assignee? Explain how the assignee conducts the affairs of the firm. Why is the transfer of real estate more difficult than the transfer of personal property? How far back must the title be traced? How has the searching of titles become complicated? What danger arises from errors? What is the business of title insurance, and what are its advantages? What are the effects of this system? What are the duties of a trust company as fiscal agent? What is the custom of trust companies with regard to allowing interest on deposits? What are the prevailing rates?

4. What is a State bank? How does it differ from a National bank? Is a State bank required to keep a reserve? If so, what is the amount? How do State banks and National banks compare as to loans? Under whose supervisions are State banks? How many reports are they required to make, and to whom? How often are they examined? Are these examinations critical? May a State bank become a member of the Federal Reserve System? How? What line of business do some State banks engage in? How is it done? What rates do the banks charge on these loans? What risk does the bank assume in loaning money on this kind of security?

5. What are savings banks? In what respect do savings banks differ from National banks in regard to capital? In regard to organization? What becomes of the profits? Are all savings banks mutual? Why are savings banks especially guarded by the State? Under whose supervision are they? When and by whom are they examined? What care is used in investing the funds of a savings bank? How are they managed? What care is used in selecting men to manage savings banks? Name two reasons for the founding of savings banks. Mention three objects a depositor has in placing his money in a savings bank

6. Why do some men object to savings banks? How is this idea readily shown to be a fallacy? Name three kinds of investments a savings bank is permitted by law to make. Which is regarded as most desirable? What is the first consideration in determining where to invest the people's money? What are the safest of convertible investments? Compare savings banks with National banks, and show five points of difference. How often is the interest reckoned in most savings banks? What method is used in computing interest in savings banks? How does a deposit earn compound interest?

7. By whom are private banks conducted? What are the main points of difference between private banks and State or National banks? Where are many private banks located? What change took place in 1911 regarding the supervision of private banks? Against what banks was this law especially directed? What class of private banks is exempt from its provisions?

8. What is the nature of the business done by firms known as "bankers?" What influence do such firms as Morgan, of New York, and Rothschild, of Europe, exert in the financial world? Are they restricted by law concerning the business they are engaged in? Under whose supervision do they come? What is the principal business of "bankers?"

9. What are "bankers and brokers?" What is the nature of their business? What is a "bond house?" An "acceptance house?" What is a "note broker?" What is the nature of their business?

POSTAL SAVINGS SYSTEM

261. Purpose. The Postal Savings system provides facilities for depositing savings at interest, with the security of the United States Government for repayment.

262. Service Free. No charge or fee is collected or required in connection with the opening of an account or the subsequent deposit or withdrawal of money. The proper money order fee is charged, however, when withdrawals are made by mail.

263. Deposits. Any person of the age of ten years or over may open an account at any post office which has been designated as a depository. The account of a married woman is free from the control or interference of her husband. No person can have more than one account at the same time.

An account cannot be opened for less than \$1, nor can fractions of \$1 be deposited or withdrawn. Amounts less than \$1 may, however, be saved by the purchase of 10-cent postal savings cards and adhesive 10-cent postal savings stamps. A postal savings card with nine postal savings stamps affixed will be redeemed in cash for \$1, or will be accepted as a deposit of \$1 either in opening an account or adding to an existing account. No person is permitted to deposit more than \$100 in any one calendar month, nor to have a balance to his credit at one time of more than \$500, exclusive of interest. An account may be opened through a representative. After an account is opened, deposits may be made through a representative or by mail.

264. Certificates of Deposit. Depositors receive postal savings certificates covering the amount of each deposit made. These certificates are issued in fixed denominations of \$1, \$2, \$5, \$10, \$20, \$50 and \$100, and are valid until paid, without limitation as

120 BANKING AND FINANCIAL INSTITUTIONS

to time. Postmasters are not permitted to receive savings certificates for safekeeping.

265. Interest. Interest will be allowed on all certificates at the rate of 2 per cent. for each full year that the money remains on deposit, beginning on the first day of the month following the month in which the deposit is made. Interest continues to accrue on deposits as long as the certificates remain outstanding.

266. Withdrawals. A depositor may at any time withdraw the whole or any part of his deposits, with any interest payable, by surrendering at his depository office savings certificates covering the desired amount. Withdrawals may also be made through a representative or by mail.

267. Bonds. Any depositor may, under certain conditions, exchange the whole or any part of his deposits, in sums of \$20 or any multiple of \$20 up to and including \$500, for United States coupon or registered bonds, bearing interest at the rate of $2\frac{1}{2}$ per cent., such bonds to be exempt from all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority. Postal savings bonds are not counted as part of the balance of \$500 allowed to one depositor. On the application of any holder these bonds will be purchased at par by the Board of Trustees of the Postal Savings system.

QUESTIONS ON THE POSTAL SAVINGS SYSTEM

I. What is the purpose of the Postal Savings system? What charge is made for this service? Who may become a depositor of this system? What is the smallest amount for which an account can be opened? What is the smallest amount that can be deposited? What plan is used to enable people to save less than \$1? What is the maximum allowed to be deposited by one person in one month? What is the largest amount a depositor is allowed to have to his credit at one time?

2. What receipt does the government give for money deposited? How long is it good? What rate of interest does the government allow on deposits? What method is used in allowing interest on deposits? May a depositor withdraw his money at any time? How is it done? If a depositor so desires, what may he do with his deposit? What rate of interest do these bonds draw? May he sell these bonds? What provisions has the government made to buy these bonds from the holders thereof? What aim did the government have in view when it established the Postal Savings system?

BUILDING AND LOAN ASSOCIATIONS

268. Object. The object of a building society or association is to enable its members to save and invest their money, and to enable them to become owners of property, if they so desire.

The first building association in the United States was the "Oxford Provident Building Association," started in Frankford, a suburb of Philadelphia, in 1831. Since that time the growth of these societies has been very rapid.

269. Capital. The associations are organized on the basis of a capital stock divided into shares of an equal fixed amount. In Pennsylvania the par value of each share is \$200. Membership is obtained by subscription to one or more of the shares. The desired end of the association is to make each share worth its par value, in actual cash or an equivalent, as soon as possible; to be able to distribute to each member the par value of the shares standing in his name.

Each member pays one dollar monthly for each share for which he has subscribed.

It is evident that if the money paid in by the members were to lie idle in the treasury it would take 200 months for the shares to reach their par value. But by lending the money out at interest each month as fast as it is received, enough profit is made to mature the shares in little more than three-fifths of that time.

270. Borrowers and Non-Borrowers. The stockholders are divided into two classes, namely, borrowers and non-borrowers. Any member may belong to either or both of these classes, but no one who is not a member is permitted to borrow. All the non-borrower does is to pay his instalments regularly upon the shares he owns, until they mature, when he receives their par value in cash. The borrower has additional payments to make for the interest on his loan.

271. Borrowing. In the early days of building associations those desiring to borrow money were required to bid against each other for the privilege. The amount bid was called the premium and was deducted from the loan before the money was paid to the borrower. The present practice is for the amount of the premium to be determined by the board of directors.

In the case of first mortgages, loans are usually made without premium. In the case of second mortgages, the borrower is usually required to pay so much per share per month, the premium varying from ten cents to twenty-five cents per share, in addition to the dues and interest.

272. Outline of Plan. Suppose a man takes ten shares, the par value of each being \$200, and he pays on each share \$1 per month. He wishes to borrow to the extent of his shares, viz., \$2,000, to build a house. The rate of interest is six per cent., and the borrower pays the association a premium of fifteen cents per share. He is told to build his house and his bills will be paid, and, to secure the association, a mortgage is taken on the property. His monthly dues are \$10 on shares, \$10 interest, and \$1.50 premium, or a total of \$21.50 each month. In from ten to twelve years, at the maturity of the shares, his debt is cancelled and he owns his home clear of incumbrance.

273. Sources of Profit. The sources of profit may be classified as follows:

1. The interest upon the loans.
2. The premiums on loans.
3. Fines charged upon dues and interest when in arrears.
4. The profit on withdrawals of stock before the ultimate result is reached.

274. Terminating and Permanent. Building associations are of two kinds; namely, terminating and permanent.

In the terminating plan, all the stock is issued at one date; and, if it is not all subscribed at the first meeting of the newly-formed association, those shares that are afterwards sold to new members must, by back payments, be made equal in value with those already issued.

Under the permanent plan, the stock is issued in series, a new series being started at intervals of one year, or six months, or three months, as the association may determine. In the course of from ten to twelve years the first series is paid off, and at each regular period thereafter there is a series maturing and a new series starting.

The older associations were all of the terminating kind, but now the permanent associations are by far the more numerous. The interest of each member in the society terminates when his share is realized or his loan paid off; but the society continues with the accruing subscriptions of other members of later series.

275. Withdrawals. A stockholder may withdraw from an association at any time, and will receive the full amount paid in, together with such share of the profits as the by-laws may authorize. The percentage of profits to which a withdrawing stockholder is entitled increases with the age of his shares. A stockholder withdrawing at the end of seven years will receive a larger

percentage of profit, in addition to the amount paid in, than one who withdraws at the end of two years.

QUESTIONS ON BUILDING AND LOAN ASSOCIATIONS

1. What is the object of building and loan associations? Where was the first building association started? When? How is the capital stock divided? How is membership obtained? What is the design of the association with regard to the shares? How long would this take if the money lay idle? What difference in time on account of interest? What are the two classes of members? Who are permitted to borrow? What payments does each borrower make? What is the "premium?" How is the amount of the premium determined? In addition to the premium, what does the borrower pay? What loans are sometimes made without a premium? Explain how the business is conducted. What are the sources of profit in a building association?

2. What are the two kinds of building associations? Explain the terminating plan. Explain the permanent plan. Which kind is the more numerous? If a stockholder wishes to withdraw the value of his shares, what does he receive?

PART III
STOCKS AND BONDS, INSURANCE,
TRANSPORTATION, ETC.

STOCKS AND BONDS

276. Corporations. A corporation is an artificial being established by law for a specific purpose, composed of a number of individuals and continued by a succession of members, either perpetually or for a period of years.

Corporations are created by the authority of the Legislature of a State, and usually in conformity with the provisions of a general law applicable to all corporations. The constitutions of the several States almost universally prohibit the creation of corporations by special statute. Certain corporations must pay to the State an annual tax and make reports to it at stated periods.

The distinction between a natural person and a corporation is that a natural person may do anything not prohibited by law, while a corporation can do nothing but what is expressly permitted by its charter.

277. Characteristics. The following comparison of the characteristics of partnerships and corporations will serve to show more fully the distinguishing features of each:

PARTNERSHIP

1. Is formed at the will of the parties to the contract.
2. Powers are limited by the scope and nature of the business, which may be changed by the consent of the parties.
3. Partners may be admitted to or retire from the firm only by mutual consent.
4. Each partner is liable for the total debts of the firm.

CORPORATION

1. Is formed and exists only by permission of law and under its authority.
2. Powers are limited by the statutes under which it is incorporated, and the scope of its charter.
3. Shareholders may transfer their shares at will.
4. Shareholders are exempt from liability for debts of the corporation, the assets of the corporation alone being liable.

PARTNERSHIP

5. May not use a common seal, and partners must sue and be sued in their individual names.

6. Is dissolved by change of membership, by death of a partner, by bankruptcy, or by termination of the time for which the partnership was formed.

7. The act of any partner will bind the firm.

8. May increase or decrease its capital by mutual agreement.

9. Is only practicable where there are but a few persons interested.

CORPORATION

5. May use a common seal, and sue and be sued in its corporate name.

6. May exist perpetually, or for a limited time; is not dissolved by change of ownership of shares, by death of shareholder or by bankruptcy; may be dissolved by limitation of time, by action of the law or by agreement of shareholders.

7. Only the proper officers can make a binding contract.

8. Its capital may not be changed without the authority of the State.

9. Any number of persons may own stock without affecting its ease of management.

278. Public Corporations. A public corporation is one created to administer a branch of government, such as a State, city, town, county or township.

279. Private Corporations. A private corporation is one created, wholly or in part, for purposes of private gain. When the stock of a corporation is held by a small group of individuals and is not in the market for sale, it is sometimes called a "close" corporation.

280. For What Formed. The first thing needful in any business enterprise is sufficient capital. There are many undertakings which are far beyond the means of any one man. Few individuals could alone finance a railroad, or a line of steamships, or an insurance company, or even a large manufacturing plant, and, if they could, its business would have to be closed up or disposed of at the time of their death. For this reason, individuals

join their property and act together in a business enterprise as a corporation, which has rights and obligations of its own, which are not the rights and obligations of the individuals composing it.

281. How Formed. Several individuals join in petitioning the authorities of the State for the privilege of forming a corporation, stating the nature of the business, the amount of capital, and the number of shares into which the capital is divided. When the petition is granted, a charter is issued by the State and the corporation is then established.

The number of persons required to form a corporation depends upon the statute of the State. In Pennsylvania, New Jersey and New York, three or more are required.

282. Duration. Some corporations are perpetual and others are formed for a limited time. Their existence does not, as is the case in a partnership, depend upon the life of the members.

283. Powers. A corporation has the right to sue and be sued in its corporate name, to have a common seal, to pass by-laws for its government, to hold property, and to do anything expressly permitted by its charter, and not in violation of the general corporation laws of the State.

284. Management. The management of incorporated companies is generally vested in directors who are elected by the stockholders or shareholders, each shareholder, in most cases, being entitled to as many votes as the number of shares he owns.

285. Cumulative Voting. In order to give the minority stockholders of a corporation the opportunity of electing a repre-

sentative on the board, the laws of some States permit cumulative voting.

Under this plan a stockholder may multiply the number of shares he owns by the number of directors to be elected and cast that number of votes in favor of one or two candidates, instead of voting the number of shares he owns in favor of as many directors as are to be elected.

Illustration: A person owns 100 shares of stock in a corporation which is about to hold its annual meeting for the election of 15 directors. He may vote his 100 shares in favor of each of 15 candidates, or, under the cumulative plan, he may cast 1500 votes in favor of one candidate, or 750 votes each in favor of two candidates. It is thus possible for a number of minority stockholders to combine, and, by concentrating their votes on one or two individuals, elect such individuals to the board.

286. Liability. The stockholders of a corporation are liable for the debts of the company only to the extent of the amount unpaid, if any, on the stock for which they subscribed. If the stock is full paid, they can lose only what they have invested.

An exception to this statement is noted in the case of National banks, stockholders in which are liable for an amount equal to the par value of their holdings, constituting what is called a double liability.

287. Franchise. A franchise is a special privilege granted by a National, State, or Municipal government, such as the right to operate a railway, construct telegraph and telephone lines, etc.

288. Charter. A charter is a formal instrument by which a National or State government grants special rights or privileges to a corporation.

289. Capital Stock. Capital stock is the sum fixed by the charter as the amount paid in or to be paid in by the stockholders. It is divided into equal parts called shares.

PAYMENT OF CAPITAL STOCK. The amount of capital required to be paid in depends upon the statute. In Pennsylvania, ten per centum must be subscribed and paid in before incorporation; in New Jersey, \$1,000 must be subscribed, but business may be commenced without any money being paid in.

COMMON STOCK. Shares which entitle the holder to the profits of a corporation, after the dividends on preferred stock (if such stock exists) have been paid. When stock is not classified, it is all common.

PREFERRED STOCK. Shares which entitle the holder to a priority in the dividends or earnings over common stock, and also, if so stated, to a priority in the final distribution of the assets.

CUMULATIVE PREFERRED STOCK. Preferred stock on which all arrearages of dividends must be paid before any other issue of stock may participate in the profits.

GUARANTEED STOCK. Stock of a corporation on which the dividends are guaranteed by another company, which operates the franchise rights of the first.

FULL PAID NON-ASSESSABLE STOCK. Shares for which the face value has been paid into the treasury of the corporation by the holders, and which is not liable to assessment.

UNSUBSCRIBED STOCK. That part of the authorized capital stock which has not been subscribed for.

TREASURY STOCK. Issued stock of a corporation which has been acquired by the same corporation by purchase or otherwise.

STOCK CERTIFICATE. A printed or engraved certificate, signed by the proper officers of the corporation, certifying the ownership of a certain number of shares. It is

transferrable by assignment, which must be recorded in the books of the company, and may be bought and sold like any other property.



290. Stock Certificate.

291. Dividend. A dividend is that portion of the profits of a corporation which is distributed among its stockholders. Dividends are declared on the par value of issued stock or on the paid-in capital, and are payable to stockholders of record at a specified date by resolution of the board of directors.

A *cash dividend* is paid in cash; an *instalment dividend* is credited to each stockholder as an instalment on his subscription to capital stock; a *stock dividend* is a distribution to the stockholders of new paid-up stock in lieu of cash;

a *scrip dividend* is a distribution of obligations of the company instead of cash. These obligations are in the form of engraved certificates, payable at a certain time and usually drawing interest.

292. Bonds. A bond is the written obligation of a corporation, public or private, to pay a certain sum of money at a certain time, bearing a fixed rate of interest payable at certain periods. The bonds of private corporations are usually secured by a mortgage on the whole or some specified portion of their property.

REGISTERED BOND. Bond whose owner's name is registered with the company. The interest is paid by check to the registered owner. Transfers of ownership must be recorded on the books of the issuing corporation.

COUPON BOND. Bond with small certificates of interest attached, which are cut off and presented for payment as they become due. These coupons may be deposited in bank the same as checks. Bonds and coupons are payable to bearer.

REGISTERED COUPON BOND. Coupon bond whose owner's name is registered on the books of the company. The coupons are payable to bearer.

293. Classes of Bonds. Bonds are classified, by a proper descriptive term, as regards the nature of the issuing corporation. The principal classes are as follows:

GOVERNMENT BONDS. Bonds of the United States Government.

MUNICIPAL BONDS. Bonds of a city, county, township or borough.

RAILROAD BONDS. Bonds issued by a railroad.

PUBLIC UTILITY BONDS. Bonds issued by street railway, electric light, gas, water, telephone and telegraph companies.

INDUSTRIAL BONDS. Bonds of private manufacturing establishments.

Bonds are also classified as regards the nature of the security. The principal classes are the following:

FIRST MORTGAGE BONDS. Bonds secured by a first mortgage on certain property of a corporation.

SECOND MORTGAGE BONDS. Bonds secured by a second mortgage.

CONSOLIDATED MORTGAGE BONDS. An issue of bonds designed to ultimately consolidate the various bond issues of the corporation into one class, by refunding the prior issues as they become due.

GENERAL MORTGAGE BONDS. Bonds secured by a mortgage covering everything that is left over after the prior bond issues are taken care of.

COLLATERAL TRUST BONDS. Bonds secured by the deposit, with a trustee, of securities owned by a corporation.

REFUNDING BONDS. Bonds issued to take the place of bonds which have matured and which the corporation does not wish to redeem in cash.

DEBENTURE BONDS. Bonds without security other than the good name of the corporation. They are simple promises to pay, much like a note.

INCOME BONDS. Bonds bearing interest coupons, which are payable if the company's earnings are sufficient after paying fixed charges.

CONVERTIBLE BONDS. Bonds which may, at the option of the holder, be converted into stock of the same corporation, under certain conditions.

GENERAL MORTGAGE STERLING LOAN BONDS. General Mortgage bonds whose principal and interest is payable in pounds sterling. These bonds are sold principally in foreign countries.

CAR TRUST CERTIFICATES OR EQUIPMENT BONDS. Bonds secured by a mortgage on the rolling-stock of a railroad.



295. Registered Bond.

296. Fundamental Difference. A stockholder of a corporation is really one of the proprietors; a bondholder is one of its creditors.

297. Short-Term Notes. A corporation may need to borrow money at a time when the condition of the market is not favorable to the absorption of a new issue of bonds. In such case, the corporation may issue what are termed short-term notes. These are simple obligations of the company, payable usually in one, two or three years, and bearing a desirable rate of interest. Such notes are usually sold without difficulty, if the credit of the corporation is good.

298. How a Railroad is Financed. In the early days of railroad building, and even lately in the case of small roads, the money for building expenses was first supplied by parties who took notes running for four, six, eight, ten or twelve months. As time passed along more money was needed. The organizers had furnished all the money they were able to put in, and the next step was to form a corporation and sell stock to the public. The stock was sold for as much as they could get for it.

More money was still necessary, and the next step of the corporation was to issue a series of First Mortgage Bonds. A First Mortgage Bond takes preference over the stock. It is a first lien on the assets of the company, and is one of the most desirable forms of investment. Later, the corporation issued another series of bonds called Second Mortgage Bonds. Still needing money, it issued a third series of a different nature, calling them Consolidated Mortgage Bonds. If the issue of First Mortgage Bonds was \$5,000,000, and of the Second Mortgage Bonds \$5,000,000, and the company needed \$5,000,000 more, it issued Consolidated Mortgage Bonds to the amount of \$15,000,000, depositing \$10,000,000 of the bonds with trustees to redeem the First and Second Mortgage Bonds at maturity, and offering the remaining \$5,000,000 for sale to the public.

The property of the railroad is now all mortgaged, and the next time the company desires to borrow money, they may issue a series of Debenture Bonds, which are simple promises to pay without any security whatever, or they may issue a series of short-term notes. Still another plan is to provide additional funds by increasing the capital stock, and offering a new issue of stock for sale to the public.

After a while the equipment of the road—engines, cars, rails, ties, etc.—begins to wear out, and they may not have enough money on hand to make the necessary repairs. They then go to a

car manufacturer and make a contract for one, two or five thousand freight cars. The value of one of these cars runs from seven or eight hundred up to twelve hundred dollars. A trustee is appointed, who buys these cars and leases them to the railroad. The railroad must keep the cars in good condition and must replace any which are lost or damaged. The railroad agrees to pay every three months, or every six months, or perhaps every year, for a certain proportion of the equipment, and, as such payments are made, the trustee releases the lien on such cars as are fully paid for, which then become the property of the railroad company.

The above is a brief description of the manner in which a railroad is financed from the beginning. In the case of large roads, the details naturally may be greatly multiplied and there may be numerous forms of bonds other than those above mentioned, but the underlying plan will, in general, conform to the above description.

299. Joint Stock Associations. A "joint stock association" (in Pennsylvania) is an association of three or more persons in business, having a common capital contributed by the members, which is solely liable for the debts and which is divided into shares of which each member owns one or more, and which are transferable by each owner with the consent of the others. They are formed under the provisions of the Act of June 2, 1874.

A joint stock association is designated as a quasi-corporation; that is, a body similar to a corporation. It partakes of the characteristics of both a partnership and a corporation, although it more closely resembles the latter. Like a corporation, it is a creature of statute law; its capital is divided into shares which are transferable; the time of its existence is limited (not more than 20 years); its capital is alone liable for its debts; it can use a corporate seal

and sue and be sued in its corporate name. It is not dissolved by death or bankruptcy of a member.

It differs from a corporation in the following respects:

The shares are transferable only to such persons as may be elected members by a majority of the associates, or in accordance with the articles of partnership association.

It is governed by the provisions of the contract of association, whereas a corporation is governed by its by-laws.

If the statute under which the association is organized is not strictly complied with, the members are liable as general partners, and creditors are not confined to the capital for payment of their debts.

The word "limited" must appear in the title of the association on all papers used in its business, and in its advertisements; as, "Smith Iron Works, Limited," or the members will be liable as partners.

Care should be taken to distinguish between the joint stock associations (also called partnership associations) formed under the Act of 1874, and limited partnerships formed under the Act of 1836. The Act of 1836 provides for the formation of a partnership wherein some of the partners are liable generally, and one or more are merely special partners, who are not liable for the partnership debts beyond the fund they contribute to the capital, provided all the statutory requirements are complied with. The Act of 1899 provides for the creation of bodies partaking of the characteristics of partnerships, under the Act of 1836, and of corporations, under the Act of 1874.

THE STOCK EXCHANGE

300. The Stock Exchange. The Stock Exchange is an association of brokers for the purpose of providing a convenient place where they may meet daily to execute the orders which they have

received from their customers for the purchase and sale of stocks, bonds, and other securities. Nearly every large city has a stock exchange.

301. Membership. The New York Stock Exchange, which is the largest and most important stock exchange in the country, has a membership of eleven hundred. The privilege of membership is very valuable, and can now be secured only by purchasing the rights of some retiring or deceased member.

A membership in the stock exchange is called a "seat." When business is normal, the purchase price of a seat in the New York Exchange is usually from \$60,000 to \$75,000, but, in times of great activity in the stock market, a seat has sold for as high as \$95,000. The purchaser of the seat must be approved by the stock exchange before being admitted to membership and must pay an initiation fee of \$2,000.

302. Listing. On the floor of the stock exchange only "listed securities" are dealt in; that is, such issues of stocks, bonds, etc., as have been officially listed by the stock exchange through the action of its proper committee. A corporation desiring to have its stocks or bonds listed on the stock exchange must make formal application, accompanied by full information concerning the formation and operation of the company, a statement of its assets and liabilities, and such other information as the stock exchange may demand. Additional issues of securities must be listed before they can be bought or sold on the exchange, even though prior issues of the same corporation are listed.

303. Terms. Securities may be bought and sold on the stock exchange in the following manner:

- (a) "Cash"; *i.e.*, for delivery on the day of contract.

(b) "Regular Way"; *i.e.*, for delivery on the business day following the contract.

(c) "At 3 Days"; *i.e.*, for delivery on the third day following the contract.

(d) "Buyer's or Seller's Options" for not less than four days nor more than sixty days.

"Buyer 4," for instance, means that the buyer may demand delivery of the stock at any time within the four days, but must take and pay for it by the fourth day.

"Seller 4" means that the seller has four days to fulfil his contract. He may deliver the stock the day sold, or on any one of the three following business days.

When stock is sold at either buyer's or seller's option, the buyer pays six per cent. interest, unless "flat" is specified in the bargain.

304. Commission. The regular charge for buying and selling stocks and bonds at the New York Stock Exchange is one-eighth of one per cent. ($\frac{1}{8}$ per cent.) on the par value; *i.e.*, \$12.50 on 100 shares of stock of the par value of \$100, or \$1.25 on a \$1,000 bond.

The stock exchanges in other cities make their own regulations concerning charges, etc., but usually follow the custom of the New York Stock Exchange.

305. Stock Exchange Clearing House. The various members of the stock exchange are engaged in both buying and selling for their customers, and, if the shares in each transaction were actually transferred, the volume of clerical work would be enormous. The stock exchange clearing house provides a method of clearing the active stocks in a manner similar to that in which checks are cleared in the clearing house for banks.

The transactions of the various brokers are tabulated on sheets, and each broker receives stock certificates for the excess of his purchases of a certain stock over his sales of the same stock, and delivers certificates for the excess of his sales over his purchases. The actual transfers of stock, which must necessarily balance, are usually about ten per cent. of the total transactions.

Similar clearing methods are used in all the large commodity exchanges throughout the country.

306. The Curb Market. The curb market derived its name from a group of brokers, not members of the stock exchange, who meet on the street, near the stock exchange building, for the purpose of buying and selling stocks not listed on the exchange. The New York Curb Market is a flourishing institution. It meets on Broad Street, near the Stock Exchange Building, and, when business is brisk, the shoutings of the brokers may be heard at quite a distance. The prices of the stocks and other securities which are actively dealt in by the curb brokers are reported on the financial pages of most newspapers.

307. Margin. A margin is a deposit made with a broker by a person who wishes to buy or sell stock for speculation. It is usually ten per cent. of the par value of the stock, but some brokers who encourage speculative accounts often accept a smaller margin from their customers. The margin is designed to secure the broker against loss in case of an unfavorable turn in the market. If the transaction results in a gain, the customer gets back his margin plus the profit. If the stock recedes in price, the broker may require his customer to put up additional margin, in default of which the broker may sell the stock, deduct the loss from the margin, and return to the customer what is left.

308. Selling Short. Selling short means making a contract to deliver stock on or before a certain date, the speculator hoping to be able to buy it in the meantime at a lower price. If the stock does not go down in price before the date on which he must deliver it to the purchaser, the speculator is forced to buy at whatever it may cost, in order to make the delivery as agreed.

309. Loss and Ruin. While it is true that some outsiders have occasionally made money by speculation in stocks, far more have lost, and their money has gone to swell the profits of the manipulators. Many men have been ruined by speculating with money not their own, but which was entrusted to their care by others.

QUESTIONS ON STOCKS AND BONDS

1. What is a corporation? How are corporations created? What is the distinction between a natural person and an artificial person? Name and explain the points of resemblance and of difference between partnerships and corporations. What is a public corporation? A private corporation? A "close" corporation? What kind of corporation is a railroad? A National bank? A borough? Why do so many firms incorporate? How many persons are required to form a corporation? Name the several steps in the formation of a corporation. How long may a corporation exist? What powers does a corporation have? How are incorporated companies managed? When and by whom are the directors elected? The officers? What is meant by "cumulative voting?" What is a "proxy?" To what extent are the stockholders of a corporation liable for the debts of the company?

2. What is a franchise? What is a charter? What is capital stock? What amount of money must be subscribed and paid in before a corporation may begin business? Explain: Common stock; preferred stock; cumulative preferred stock; guaranteed stock; full-paid stock; non-assessable stock; unsubscribed stock; treasury stock; watered stock; stock certificate; instalment script. What is a dividend? A cash dividend? An instalment dividend? A stock dividend? A fictitious dividend? A capital stock dividend? What is meant by an "ex-dividend?" "Passing a dividend?"

3. What is a bond? How are bonds of private corporations usually

secured? What is a registered bond? A coupon bond? A registered coupon bond? How are bonds classified? Name sixteen classes of bonds and define each. What is the difference between a stockholder of a corporation and a bondholder? What are "short-term notes?"

4. What is a funded debt? What is a mortgage? What is a sinking fund bond? What is meant by "hypothecating" stocks and bonds? What is a certificate of incorporation? How is a corporation dissolved? May it conduct any business not stated in the charter? What are by-laws? What is a subscription list? What are "unpaid calls on stock?" What is donated stock? How many votes has a stockholder? How many has a director? To what extent are directors liable for the debts of the company? What is a dividend check? What is bonus stock? What is stock discount? Stock premium?

5. Explain how a railroad is financed. Tell why the first mortgage bond is desirable as an investment. Explain why and how consolidated mortgage bonds are issued. When does the company issue debenture bonds or short-term notes? What other plan is sometimes made use of to raise additional funds? Why are equipment bonds or car trust certificates good as an investment?

6. What is a joint stock association? In what respects does it resemble a corporation? In what respects does it differ from a corporation? What does the word "limited" mean after the name of a company? Does the word "limited" always have to be used in connection with the name of the company? What is the difference between a joint stock association and a limited partnership?

7. What is the stock exchange? Which is the largest and most important stock exchange in the United States? How many members has it? How is membership secured in the New York Stock Exchange? What is a membership in a stock exchange called? What does it cost to become a member of the New York Stock Exchange? What is meant by "listed securities?" How does a corporation get its stock listed on the stock exchange? What do the following terms mean: "Cash;" "Regular way;" "At 3 days;" "Buyer's Option;" "Seller's Option;" "Buyer 4;" "Seller 4?" What rate of commission is charged at the New York Stock Exchange? At the Philadelphia Stock Exchange? What is the Stock Exchange Clearing House? Of what benefit is it? What is the "curb market?" Where is it held? What stocks are sold on the "curb market?" What is "margin?" For what purpose is it intended? What is meant by "selling short?" What if the stock goes up in price? What if it goes down? What has caused the ruin of many men?

INSURANCE

310. Insurance. Insurance is a plan to make provision for, and thus to guard against, the pecuniary consequences of loss to which a business or an individual is liable. Insurance may be obtained to cover every known risk that man is called upon to assume.

311. Kinds. Among the various forms of insurance are fire, life, marine, credit, accident, health, liability, plate glass, use and occupancy, profit, rent, lease, tornado, hail, burglary, theft, larceny, live stock, steam boiler, teams, disability, fidelity, casualty, collision, property damage, automobile, compensation, tourist, floater, registered mail, parcel post, baggage, leakage, fly wheel and weather. The name signifies the nature of the risk.

312. Contract. A contract of insurance binds the *insurer* or *underwriter* to indemnify the *insured* or *assured* against loss or damage from certain perils which it specifies. The consideration for this obligation on the part of the insurer is called the *premium*. The instrument in which this contract is expressed is called the *policy*.

The writing of insurance is a highly complicated operation, and a competent insurance agent or broker, having at heart the interests of his client, will incorporate in the forms attached to the policy all of the provisions necessary to protect the insured from technicalities which might lessen the value of his policy.

313. Agent and Broker. The technical difference between an agent and a broker is that an agent is the direct representative of the company which he represents, while a broker is the direct

representative of the assured and may place his insurance in any company which he may select.

FIRE INSURANCE

314. Fire Insurance. This class of insurance indemnifies the insured for loss of or damage to property occasioned by or resulting from fire, or through the efforts to extinguish fire, or by the removal of endangered property, and is written under a standardized contract.

315. Form of Policy. The form of policy in general use is known as the Standard Policy of New York, New Jersey, North Carolina, Connecticut and Rhode Island. It is subscribed only by the insurers, usually through their agents, but binds both parties. Therefore in drawing a policy there are certain rules and expressions that should be clearly followed. There should be no uncertain meaning, no useless phrases, nor omission of vital points.

316. Rider. Since almost every risk has its own individual characteristics, it becomes necessary to eliminate certain conditions contained in the body of the contract, or to impose additional conditions not contained therein. This is done by means of a "form" or "rider," which is attached permanently to the policy, and which must be signed by the company (or its authorized agent) issuing the policy of which it has become a part.

317. Lightning. Loss of or damage to property caused by lightning is almost always included by a rider or endorsement on fire insurance policies.

318. Other Forms. Contingent upon the loss of or damage to property by fire or lightning, there are other losses which may

be guarded against under the following names: Use and occupancy, profit, rent and lease. These forms are written under the standardized fire insurance policy by the use of a "rider" which indicates the intention of the insurer. While these forms do not cover loss of or damage to property, they indemnify the insured for other consequential losses occasioned by fire or lightning, such as the use and occupancy of his plant (including such overhead charges as continue after a fire—taxes, interest on bonds, contract employees, royalties, etc.); the loss of profits while restoring his plant; the loss of rent, if an owner, or the liability to continue paying rent on the damaged property, if a tenant.

The above forms are usually written under a "valued" contract, which means that a fixed amount is named in the policy to represent a total loss. In the event of a total loss, this amount is payable at so much per day for the period during which the owner is prevented by fire from using the premises. In the event of a partial loss, the insured is paid the proportion that the actual loss bears to a total loss.

319. Rates. Fire insurance rates are based on

- (a) Construction of the building.
- (b) Safeguards against and facilities for putting out fire.
- (c) Nature of business and contents of building.
- (d) Nature of the environment.

320. Who May Obtain Insurance. Insurance may be obtained by any individual who is capable of making a legal contract, but an insurance company is not bound to insure for all who apply.

321. Insurable Interest. A party may be insured who is not named in the policy, but such party must be interested in the property at the time of loss to receive remuneration. There are often

many insurable interests connected with a policy besides sole ownership, and the nature of the interest should be stated in the policy. The most notable are: Mortgagee, legatee, partners, married women, mechanics' liens, lessor, lessee, tenant for life, tenant by courtesy, earnings, profits, executors, administrators, assigns, sheriffs, constables and receivers.

All insurable interest must be legal, for insurance upon illegal interest is void, or if the contract contemplated an illegal interest it is void.

322. Reinsurance. If an insurance company were to insure a very large amount of valuable property in the same locality, an extensive conflagration might ruin the company; moreover, such a concentration of risk is opposed to the fundamental principle of fire insurance—the distribution of risk. A fire insurance company would not be willing to assume the risk of loss of a very large sum on one property, or on several properties in the same locality. It is necessary in such cases that the risk should be divided among several companies. This could be accomplished by having the owner insure separately in the various companies for such amounts as they were willing to assume the risk of; but this would be inconvenient for the assured, not only in negotiating with, and paying premiums to, so many different companies, but also, when a loss occurred, in making claim on so many offices. For these reasons, it is customary for the company to issue a policy for the whole amount desired, *reinsuring* a part with other companies.

323. Excess Insurance. Excess insurance expressly stipulates that the amount therein specified shall not be liable for any loss until all specific insurance upon the property shall first have been exhausted, and it never changes into specific insurance. It

is confined to any loss in excess of specific insurance. If there be no such excess, there is no liability. To make excess insurance operative, however, as between the insured and the specific interest, its existence must be recognized in their policies.

324. Coinsurance. Coinsurance operates under the principle that the insured has his loss paid only in the proportion that the amount of insurance bears to the amount of insurance required to be carried by the insurers. The insured may have any amount of insurance, but, regardless of the amount of insurance carried, he recovers loss from the insurers only in the proportion that he has been willing to insure his property. The insurers may designate the amount of insurance expressed in the form of a percentage of the valuation of the property, which they desire the insured to carry. Thus under a 100 per cent. coinsurance clause the insurers agree to indemnify against losses only in the proportion that the insurance actually taken out bears to the full value of the property insured. Under an 80 per cent. coinsurance clause the insurers agree to indemnify any losses only in the proportion that the insurance actually taken out bears to the 80 per cent. valuation of the property insured.

As an illustration, we assume that B. A. Headley's warehouse has a building valuation of \$10,000. Under the operation of an 80 per cent. coinsurance clause the insurers will require the insured to maintain insurance to at least \$8,000. If this requirement is maintained, the insurers agree to pay, in full, any loss not exceeding the face value of their policies. If, however, the insured should have only \$4,000 insurance in force at the time of a fire, which would be one-half of the amount of insurance he agreed to carry, and he should sustain a loss by fire of \$2,000 under his contract, the insurers would pay \$1,000. Since the insured elected to carry only half insurance, he became a coinsurer for the other half.

The following instance illustrates the fairness of the coinsurance principle: Two merchants own similar warehouses, with a building valuation of \$10,000 each, and a fire rate of 1 per cent. applying to each. One is insured for \$8,000 and the other, for \$2,000. Fire occurs and each suffers loss to the extent of \$2,000. If in neither case coinsurance were used, each would receive \$2,000, regardless of the fact that one paid \$80 premium and the other only \$20.

The coinsurance clause remedies this unfairness by permitting insurers to recover only in proportion to their willingness to pay premiums. The coinsurance clause requires large insurance risks to pay their just share of premiums.

LIFE INSURANCE

325. Principle. Life insurance derives its basic principle from the law of averages operating in human lives, as obtained from statistical tables. It figures on a sure and total loss; but when it will happen is uncertain.

326. Definition. Life insurance embraces a variety of contracts by which a company, in consideration of stipulated premiums received, agrees to pay a certain sum of money to the heirs of a person at his death, or to himself, if living at a specified time.

327. Object. The object of life insurance is to enable a man to provide for the support of his family after death, or a fund for his own support in old age, or to reimburse any pecuniary loss incident to an untimely death.

328. Kinds of Policies. Policies of insurance, according to their purpose and terms, constitute four principal classes—life policies, endowment policies, joint life policies and annuity policies.

No.

Apr 25

The Provident Life and Trust Company of Philadelphia

FORM NO. 10 OF THE PHILADELPHIA LIFE & TRUST CO. 10-10-1915
Philadelphia, Pa.
 New York Office
 New York Office

In Consideration of the Representations Made in the Application for

this Policy, which was hereby made a part of this contract, and of the payment of Two hundred and eighty three Dollars,

receipt of which is hereby acknowledged, and payment of the Yearly premium of

Two hundred and eighty three Dollars on or before the Fourth day

of Sept. month in every year hereafter until Thirty Yearly Premiums shall

have been paid or until the prior death of the Insured, Transfers to Pay at its Office in the City of Philadelphia, the

sum of Two thousand Dollars to John Henry Doe

of Philadelphia, Philadelphia County, Pennsylvania, herein called the Insured, or

to her assigns, upon the Fourth day of Sept. month, one thousand nine

hundred and forty five provided the Insured be then living; or in the event of the death of the Insured

before that date, to pay at its Office aforesaid the said sum, upon receipt of due written proof of the death of the

Insured during the continuance of this Policy, to _____

her wife Mary Elizabeth Doe of living otherwise to her

Executors, Administrators or Assigns, with _____ right reserved to the Insured to change the beneficiary.

In either case, any indebtedness hereon to the Company and any unpaid portion of the premium for the then current policy year shall first be deducted.

CHANGE OF BENEFICIARY. If the right to change the beneficiary has been reserved to the Insured, he or she may, if of full age, at any time during the continuance of this Policy, change and successively change the beneficiary hereunder, whether original or substituted, without the consent of the beneficiary, provided that the interest of any beneficiary shall be subject to the right of any assignee of said Policy. This Insured may, however, declare the designation of any beneficiary to be irrevocable. During the lifetime of any irrevocably designated beneficiary the Insured shall not have the right to revoke or change the designation of that beneficiary without the written consent of said beneficiary filed with the Company. If any beneficiary, revocable or irrevocable, dies before the Insured, the interest of such beneficiary shall vest in the Insured unless otherwise specifically provided. Every change of beneficiary or change from revocable to irrevocable designation must be made by written direction of the Insured and filed with the Company at its Home Office accompanied by this Policy, and will take effect only when endorsed on this Policy by the Company.

The beneficiary is the person named in or endorsed on this Policy as the person to whom the Policy is payable if it should become a claim by the death of the Insured. An assignee is the person to whom this Policy may have been lawfully transferred by an instrument other than a designation or change of beneficiary as aforesaid.

RESERVATION, TRANSFER, SURRENDER. If the Insured shall within one year after the issue of this Policy and without the written consent of the Company previously obtained, travel or reside south of the Tropic of Cancer or shall within that time be personally engaged in blasting, mining, submarine operations or in the production of highly inflammable or explosive substances, or as an engineer, fireman, locomotive, motorman or conductor upon any steam or electric railroad or railway, or shall be engaged in any capacity upon any steam or other vessel, this Policy shall cease to be in force. If the Insured shall within one year after the issue of this Policy die by fire or her own hand or act, unless proof of insanity shall have been furnished,

this Policy shall be valid only for an amount equal to the Reserve hereon, and not for the amount insured.

INCONTINGENT LIABILITY. This Policy, together with the application therefor, a copy whereof is attached to this Policy and made a part thereof, constitutes the entire contract between the parties, and shall be incontestable after one year from its date of issue, except for non-payment of premium. If the age of the Insured has been misstated, the amount payable under this Policy shall be such as the premium paid would have purchased of the same kind of insurance at the correct age. All statements made by the Insured shall in the absence of fraud be deemed representations and not warranties and no such statement shall avoid this Policy or be used in defense to a claim unless it is contained in the application and a copy of such application is attached to this Policy when issued.

SURRENDER. The proportion of the surplus accruing upon this Policy shall be ascertained and distributed annually and not otherwise. At the option of the Insured, dividends will be

- (a) payable in cash;
- (b) or applicable to the payment of any premium or premiums upon this Policy;
- (c) or used to purchase paid-up additions to this Policy;
- (d) or left to accumulate to the credit of this Policy with interest at three per cent. per annum, payable when the Policy becomes a claim, or withdrawable in cash at any anniversary of this Policy on demand.

The Insured may make election of one of the aforesaid options not later than thirty-one days after any anniversary of this Policy, and any option so elected shall remain in effect until superseded by another of the aforesaid options. If no election is in effect, the dividend apportionment will be applied to the purchase of a paid-up addition as provided in option (c). Such paid-up additions may be surrendered at any time for a cash value calculated on the basis for cash values hereinafter stated in this Policy provided the cash value in any case shall not be less than the original cash dividend.

329. First Page of Life Insurance Policy.

330. Life Policy. A life policy grants an insurance for the balance of the insured's lifetime, so long as the required premiums are paid. On an *ordinary life* policy the premiums are to be paid annually until the death of the insured. On a *limited payment life* policy the insured pays premiums for a fixed number of years, after which he holds a *paid-up* policy for life. The number of payments may be 1, 5, 10, 15, 20 or 25; and, if the insured should die before the expiration of the stated period, the premiums which have not become due are cancelled.

331. Endowment Policy. An endowment policy provides insurance during a certain number of years, payable on the death of the insured to his beneficiary, or payable to himself if living at the end of the period. These policies are issued for periods of 10, 15, 20, 25, 30 or 35 years, and may be paid for in annual premiums computed for any fixed number of years.

332. Joint Life Policy. A joint life policy, as its name indicates, insures two or more lives on an adjusted premium for a sum payable, when one dies, to the survivor or survivors. This form is intended for members of a partnership, to replace the loss of capital or services incurred by a member's death.

333. Limited Term Policy. A limited term policy is one written for a limited term; for instance, one year or five years. It is desirable for commercial purposes, as the premium is less, being computed on the probability of death within a given period, at the end of which time the policy is void—a plan somewhat like fire insurance. The policy may be converted at any time into one of the other forms, by paying the difference in the rate.

334. Annuity Policy. An annuity policy secures to the holder the payment of a certain sum of money every year during

his lifetime, in consideration of a single cash payment to the company. This is almost the opposite of a life policy.

335. Instalment Annuity Policy. An instalment annuity policy is one which, upon the death of the insured, secures to the beneficiary a stated sum annually during the life of the latter. The company usually binds itself to pay at least twenty instalments, and, if the beneficiary dies before the twenty instalments have been paid, the remainder of the twenty instalments is paid usually to the heirs of the beneficiary.

336. Dividends. A dividend is that portion of the profits of the company which is annually paid to or credited to the policy holder.

A *deferred dividend policy* is one in which the dividends are not paid annually to the policy holder, but are held by the company and paid after a certain term of years has expired.

An *annual dividend policy* is one in which the dividends are paid annually to the policy holder in cash, or are deducted from his next premium, or are credited at once to the policy in the form of increased insurance. The annual dividend policy is preferable, and in some States a company is not permitted to write a deferred dividend policy.

337. Kinds of Companies. There are three kinds of life insurance companies—stock, mutual and mixed. In a stock company the capital stock is subscribed by the stockholders, who share all the profits. A mutual insurance company is one in which the capital is formed by the accumulation of the money received from the persons insured, and among whom all the profits are divided.

Every person who insures his life is a member. In mixed companies a portion of the profits is divided among the stockholders, as may be fixed by the provisions of their charter, and the remainder is paid in dividends to the persons insured, or is added to the surplus.

338. Expectation of Life. It is, of course, impossible to foretell just how soon any particular individual will die; but "mortality records" (that is, records of death) taken from the archives of all civilized countries, have been collected, arranged and compared, so that it is now possible to calculate accurately the average length of life lying before ordinary men of any given age. While it is true that any given individual may die sooner than the calculated time, others will live longer, thus preserving the average; and premiums calculated to produce a profit for the company on each life insured, if all lived their "expectation," will yield a satisfactory result, with a loss on one policy and a gain on another.

339. Questions. When a person applies for insurance, the company, through its medical examiner, inquires with great minuteness and detail into everything which can affect the probability of life to the applicant, and a written report is made, which becomes the basis upon which the company either grants or declines the insurance. These inquiries must be answered fully. The questions are essentially the same in the forms given out by the different companies.

340. Premium. The calculation of the annual premium is based upon what are termed "actuarial" principles, which involve:

- (1) An assumption as to the rate of interest which the company will be able to earn upon its investments.
- (2) An assumption as to the rate of mortality that will be

experienced. For this purpose a standard Mortality Table is employed.

(3) An assumption as to the expense necessary to carry on the business.

341. Participating and Non-Participating Companies. In so-called participating companies a yearly investigation is made to determine the relation of the experience of the preceding twelve months to the above assumptions. When experience shows that a saving has been effected, the company is able to pay dividends. In this case, however, the word "dividend" is a misnomer. It is really a return of an overcharge which has been made for the purpose of safety. Non-participating companies charge smaller premiums and do not pay dividends, at the same time assuming risk of loss should their premium charge prove inadequate.

342. Reserve Value. The reserve value of a policy is that part of the premium, with interest added at a given rate, which the company is required to set aside annually to produce a fund sufficient to pay the face of the policy at its maturity.

343. Cash Value. The cash value of a policy is so much of the reserve value as the company will pay for a surrender of the policy prior to its maturity.

344. Paid-up Insurance Value. The paid-up insurance value of a policy is the amount of insurance that will be continued automatically if the policy holder should discontinue paying his annual premiums. It is the amount of life insurance which its reserve value used as a single premium will purchase.

345. Beneficiary. A person taking out a policy of life insurance can direct the payment of any benefit thereunder to any

person he chooses to name in it, usually some near relative. It is generally understood that the "beneficiary," or person to be benefited by the policy, is in some way financially dependent on or interested in the life of the insured.

A person may have his life insured for as large an amount as the companies will insure, and in as many companies as he chooses and can afford.

MARINE INSURANCE

346. Marine Insurance. Marine insurance is a contract by which one party, the "insurer or underwriter," agrees for a certain premium to protect another party, the "assured," against loss arising from certain perils, or sea risks, to which his ship, goods, or other interest may be exposed during a specific voyage or period of time.

347. Policies. A valued policy is one which contains a specific valuation of the interest insured. An open policy is one in which the value of the interest insured is not specified. In claims under open policies the assured must prove the value of the thing insured.

348. Deviation. If the ship should deviate from the regular and usual course of the specific voyage insured, without necessity or reasonable cause, the insurance becomes void and the underwriter is released from all liability under the policy.

349. Perils. The perils insured against are set forth as the "adventures and perils of the seas, men-of-war, fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and counter-mart, surprisals, takings at sea, arrests, restraints, and detainments of all

kings, princes, and people of what nation, condition or quality soever, barratry of the master and mariners, and all other perils, losses and misfortunes that have or shall come to the hurt, detriment or damage of the said goods, merchandises, and ship, etc., or any part thereof."

350. Abandonment. When an absolute total loss occurs, the assured is entitled to recover the amount of the policy without giving notice of abandonment. When the subject insured, without being wholly destroyed, is so seriously injured, through the perils insured against, that its recovery might involve greater expenses than its eventual value would cover, it forms a "constructive total loss," and the assured is entitled to give notice of abandonment to the insurers, and to claim the amount of the policy. The effect of an abandonment of the ship is to transfer the ownership to the underwriters.

351. Average. Average is of two kinds—general average and specific average. General average arises when sacrifices have been made, or expenditures incurred, for the preservation of a ship, cargo and freight from some peril of the sea or from its effects. It implies a subsequent contribution, from all the parties concerned, ratably to the values of their respective interests, to make good the loss thus occasioned. Specific average signifies the damage or partial loss happening to the ship, goods or freight by some fortuitous or unavoidable accident. It is borne by the parties to whose property the misfortune happens, or by their insurers.

The fundamental principle of general average is that a loss incurred *for the advantage of all* the coadventurers should be made good by them all in equitable proportion to their stakes in the venture.

All general losses may be divided into two principal classes :

(a) Sacrifices of part of the cargo and freight (as when part of a cargo is thrown overboard to save the ship from foundering in a storm) or part of the ship (masts, etc.), for the general safety.

(b) Extraordinary expenditures incurred with the same object (as when a ship is obliged to put into a port of refuge in consequence of damage received in the course of the voyage).

An explanation of the methods of computing each contributor's share of loss, etc., may be found in any commercial arithmetic; while the particulars of liability, etc., form an important chapter in mercantile law.

CREDIT INSURANCE

352. Purpose. The purpose of credit insurance is to reimburse a business house for unusual losses on book accounts.

353. How Issued. Almost every business house, even the most carefully managed, has at least a small percentage of bad debts each year. A business house applying for credit insurance is required to furnish to the company a statement of its losses on book accounts during a preceding period of years, usually five. The company takes into consideration the nature of the business in which the applicant for insurance is engaged, together with the experience of this particular concern as compared with other concerns in the same line of business, and determines upon a percentage of the sales which is to be regarded as the normal annual net loss. The company then agrees, in consideration of a certain premium, to reimburse the concern for losses on book accounts in

excess of the normal net loss, up to the face of the policy. The usual rate is \$75 per thousand.

354. Restrictions. The business house applying for insurance must use the same care in extending credit that it would exercise if it were not insured. It may sell only to houses rated above a certain grade by the mercantile agencies, and a maximum amount which the company will allow as a loss on any one account is stated in the policy.

The policy holder may, however, sell to "off-rated" trade, that is, to those whose ratings are below the standard mentioned in the policy, under the following conditions:

- (1) The policy holder must himself bear a portion of the loss on "off-rated" accounts, usually one-third.
- (2) The policy specifies the maximum amount which the company will allow as a loss on any one account.
- (3) The aggregate losses on all "off-rated" business must not exceed a certain sum, which is established in proportion to the face of the policy.

QUESTIONS ON INSURANCE

1. What is insurance? On what may insurance be obtained? Name the different kinds of insurance. What is the contract of insurance? What is the premium? What is the policy of insurance? What is the difference between an insurance agent and an insurance broker?

2. What is fire insurance? Why is fire insurance desirable? What form of policy is generally used? Should a person when buying an insurance policy read each provision of the policy carefully before accepting it? Why? What is meant by a "rider" to an insurance policy? Of what use is it? What provision against loss or damage to property by lightning is usually made? How is it made? What other losses may a person suffer under a fire insurance policy than by fire, water and lightning? How may they be covered by the insurance policy? Under what kind of contract of insurance do they usually come?

3. Upon what are fire insurance rates based? Who may obtain insurance? May an insurance company refuse to insure for a person? Under what circumstances would it refuse to insure? What is an insurable interest? Who may have an insurable interest?

4. Why will an insurance company not insure a very large amount of property in any one locality? How is the risk divided among several companies? What is meant by excess insurance?

5. What is coinsurance? How does it operate? What is a 100 per cent. coinsurance clause. An 80 per cent. coinsurance clause? Give an illustration of the 80 per cent. coinsurance clause. Is the coinsurance principle a just one? Why?

6. What principle underlies life insurance? What is life insurance? What is the object of life insurance? Name the principal kinds of policies. What is a life policy? What is the difference between an ordinary life policy and a limited payment life policy? Explain an endowment policy. For what periods are these policies issued? Do these policies possess any advantage over other policies? What is a joint life policy? For whom are these policies intended? What is the object? What is a limited term policy? What is its object? When and how may it be converted into another form of policy?

7. What is an annuity policy? How is it obtained? What is the chief benefit derived from this kind of policy? What is an instalment annuity policy? To whom is the money paid under this kind of policy? In case of the death of the beneficiary, to whom is the money paid?

8. What is a dividend? What is a deferred dividend policy? An annual dividend policy? Name the different kinds of companies. Explain the difference between them. What is meant by expectation of life? Why is a company safe in basing its premiums on the average?

9. What steps does a company take when application is made for a policy? What is the premium? The premium is based upon what calculation? What are participating and non-participating companies. What is the difference? What is the reserve value of a policy? The cash value? The paid-up value? Who may be a beneficiary under an insurance policy? For how large an amount can a person have his life insured? In how many companies may he take out insurance? Why are insurance policies good as collateral security?

10. What is marine insurance? What is a valued policy? What is an open policy? Under an open policy, how is the amount of the claim determined? What is meant by deviation and what is its effect? What are the perils insured against? When a total loss occurs, what amount does the assured recover? When is the assured entitled to recover the amount of

the policy by giving notice of abandonment? What is the effect of an abandonment? What are the two kinds of average? When does the general average arise? What does it imply? When does particular average arise? By whom is it borne? What is the fundamental principle of general average? Into what two classes may all general losses be divided?

11. What is the purpose of credit insurance? To whom are such policies issued? How are these policies issued? What does the company consider before issuing the policy? What is the rate of premium for this kind of insurance? What restrictions are placed upon a business house in extending credit under a policy of this kind? Under what conditions may a policy holder sell to off-rated trade?

12. What is employers' liability insurance? What does this kind of insurance cover? How does it operate? What do you know about accident and health insurance? What risks do the following policies cover: Plate glass, automobile, burglary, use and occupancy, profit, rent, lease, tornado, hail, theft, larceny, live stock, steam boiler, teams, disability, fidelity, casualty, collision, property damage, compensation, tourist, floater, registered mail, parcel post, baggage, leakage, fly wheel, weather?

TRANSPORTATION

FREIGHT BUSINESS

355. C. L. and L. C. L. Freight is shipped either in full car-loads (C. L.) or less than car-loads (L. C. L.). In the case of car-load freight, the shipper loads the car and the consignee unloads it, the railroad furnishing no labor for the purpose except in special cases. Cars containing car-load freight are placed for loading and unloading on public tracks conveniently located and accessible to teams, or are delivered directly to the private tracks of the different industries. Less than car-load freight is delivered by the shippers at the railroad freight-house, where it is received and loaded into cars, and at its destination is unloaded and delivered through the freight-house to the consignee by the employees of the railroad. The tariff rates for car-load freight are much lower in most cases than for the smaller quantities shipped in less than car-loads, although there are many exceptions where the rate is the

same. When freight is received, whether in car-loads or in packages, it is weighed, either upon track scales or on warehouse scales, to determine the charge to be made; and the weight, rate and charges are entered upon the way-bill which accompanies every shipment of freight to its destination.

356. Forms. When freight is delivered to a common carrier for shipment the goods must be accompanied by a set of three forms, made out by the consignor, called, respectively, the bill of lading, shipping order and memorandum. These forms are furnished by the carrier, and the information is the same on each. They are usually made out at the same time by the use of carbon paper.

The first form is the bill of lading, which is signed by the receiving freight agent and returned to the shipper as his receipt.

The second form is the shipping order, and is retained by the agent.

The third form is the memorandum, and is intended solely for filing or record.

There are two sets of the above forms, one printed on white paper for straight shipments, and the other printed on colored paper for order shipments.

357. Bill of Lading. The bill of lading is the carrier's receipt for freight delivered to it to be transported. It contains the contract.

Goods shipped under a straight bill of lading must be delivered to the original consignee. Goods shipped under an order bill of lading will be delivered to any person designated by the shipper.

All bills of lading must meet the requirements prescribed by the Interstate Commerce Commission, and the forms are practically the same on all railroads.

MAY 22 1954

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shippers No._____

Agents No. _____

RECEIVED, subject to the elations and tariffs in effect on the date of issue of this Original Bill of Lading the property described below, in apparent good order, except as noted (contents and condition of contents of package(s) unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to the usual tariffs and conditions of service in effect at the time of shipment, and to the tariff and conditions of service applicable to the shipper and accepted for himself and his consignee.

The Rate of Freight from _____ Pittsburgh

to Worcester, N. Y.

...le in Cents per 100 Lbs.

60 <u>Worcester, N. Y.</u> <u>16 1/2 Cents per 100 Lbs.</u>										If Special per 100 lbs	If Special per 100 lbs
W. Times lot	W 1st Class	W 2d Class	W Rate 25	W 3d Class	W Rate 25	W Rate 25	W 4th Class	W 5th Class	W 6th Class	16	

RECEIVED, subject as above stated, at Pittsburgh, Duquesne Date April 1 1914

From Henry Poe

Via Wilkes-Barre

Call Address—Not for purposes of Delivery.)

Consigned to John Doe

Destination, Worcester State of N. Y. County of _____

Route. P. R. R. & D. H. Car Initial P. R. R. Car No. 350718[illegible]

Henry P. Shipper. J. H. Thorne Agent

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

358. Straight Bill of Lading.

Pennsylvania Railroad Company.

ORDER BILL OF LADING—ORIGINAL.

Shippers No. _____

Agents No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

at Pittsburgh, Duquesne April 1 1914

From Henry Po _____ the property described below, in apparent good order, except as noted (contents and condition of contents of package unknown), market considered as indicated hereon, which said Comptroller agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, that said party as any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions and terms, herein contained, (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his agent.

The surrender of this Original ORDER BILL of Lading property insured shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is insured on this original bill of lading or given in writing by the shipper.

The Rate of Freight from Pittsburgh

to Worcester, N. Y. is in cents per 100 lbs

[illegible]

(Mail Address—Not for purposes of Delivery.)

Comsigned to ORDER OF Henry Poe

Destination, Worcester, N. Y. State of N. Y. County of _____

Notify Henry Shallcross

At Worcester State of N. Y. County of _____

Route, P. R. R. & D. H. Car Initial P. R. R. Car No 350718

[illegible]

Henry Por Shipper. J. H. Strauss Agent.

Per _____

(This Bill of Lading is to be signed by the shipper and agent of the carrier loading here.)

359. Order Bill of Lading.

F. D. 2520

SEP 1 1964

THIS SHIPPING ORDER must be legibly filled in, in ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shippers No. _____

Agents No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Shipping Order, the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property, that the property herein described shall be carried under the tariff and conditions of service in effect on the date of shipment, whether or not such property is carried under a bill of lading or other document hereinafter shall be subject to all the conditions, whether printed or written, on the back hereof, and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from _____ **Pittsburgh**

to Worcester, N. Y. is in Cents per 100 Lbs.

IF Special per 100.	IF Special 1 lb.
------------------------	---------------------

[illegible]

RECEIVED, subject as above stated, at Pittsburgh, Duquesne Date April 1 1914

From Henry Poe

Via Wilkes-Barre

(Mail Address—Not for purposes of Delivery.)

Consigned to **John Doe**

Destination, Worcester State of N. Y. County of _____

Route P. R. R. & D. H. Car Initial P. R. R. Car No. 350718[illegible]

Henry Fox Shipper

304 Agent must detach and retain this Shipping Order and must sign the Original Bill of Lading.

360. Shipping Order.

361. Shipping Order. This is the carrier's authority to ship the freight and deliver it to a specified person at some particular place. It is also a safeguard to the carrier. Shippers cannot come back and state that the shipping directions were misunderstood or not complied with; the shipping order tells its own story.

All freight when received must be checked against the items mentioned on the shipping order, and, when not so checked, a notation to that effect should be placed on the shipping order. When freight is loaded by the shipper, and is not counted or checked by the company, the notation "Shippers' Count and Tally" is made across the face of the shipping order.

362. Notations on Bill of Lading. The various notations made by the carrier's agent on the shipping order when freight is delivered for shipment should also be made on the bill of lading.

363. Shipper's Order. If John Doe, of St. Louis, Mo., wishes to ship Richard Roe, of New York City, a car-load of goods for which he desires payment before the goods are actually delivered to Richard Roe, he would ship the goods under what is known as "Shipper's Order," making out the bill of lading on the prescribed yellow form, and the shipper's order and memorandum on blue forms.

In this case the shipper would show under the heading "Consignee" both the party to whose order the shipment was made (usually the shipper) and the party to be notified; for example, "Order John Doe, Notify Richard Roe."

John Doe, upon receipt of the bill of lading from the transportation company, would draw a draft against Richard Roe, attaching the bill of lading, properly indorsed, which would be placed with his bank for collection.

When the shipment arrived at destination, Richard Roe would be notified and informed in the notice that the shipment was an "order" shipment.

By this time some bank at destination would have received the draft for collection and would have notified Richard Roe, so that upon arrival of the goods Richard Roe would pay the draft, if he had not already done so, thus securing the bill of lading.

Richard Roe could then secure delivery of his goods by surrendering the bill of lading, properly indorsed, to the station agent, who would file it.

364. Delivery of Freight. When freight is consigned to "Shipper's Order," the freight will not be delivered until the bill of lading is surrendered. In other cases the agent simply satisfies himself that he is delivering the freight to the party to whom it is consigned, and delivery is made whether the bill of lading is produced or not. The element of good faith enters here, as it does in many other cases in the transportation business; and, while occasional losses may occur, yet they are so few as not to warrant the breaking-up of the practice. However, when the consignor receives his bill of lading or receipt for goods, he should always forward it to the consignee, so that the same may be produced if necessary.

If freight sent to "Shipper's Order" is delivered by the agent without surrender of the original bill of lading, properly indorsed, the railroad company is ordinarily responsible for any loss to the shipper through improper delivery.

365. Notice of Arrival of Freight. When freight arrives at its destination, it is customary for the agent to notify the consignee.

366. Freight Bill. As soon as freight arrives at its destination, a statement is made out by the agent of the carrier, addressed to the consignee, showing where the freight is from, name of the consignor, number of way-bill, number and initials of the car in which the freight arrives, date of the way-bill, a description of the articles, their weight, the rate, the amount of freight charges,

the amount of advance charges, and the total charges. The freight bills are numbered in regular order, and, when the freight is delivered to the consignee, the freight bill is signed by the agent and serves as a receipt for the amount paid by the consignee.

367. Classification. When freight is offered for shipment, the first thing done is to ascertain its classification. This is done by referring to a book especially prepared for this purpose. These pamphlets are prepared by men of long experience in the transportation business, who consider carefully the risk of the carrier in transporting various kinds of articles. When we consider that in shipping glassware the risk of breakage is very great and the weight light, as compared with pig iron, it is evident that a much higher rate of freight should be charged for transporting glassware than for transporting pig iron. Again, the carrier must take into consideration the perishability of the articles offered for shipment. If a car containing pig iron were side-tracked, it might stay on the switch for six months with no danger whatever of the pig iron rotting. But not so with the transportation of fruit, in which case delay is dangerous. Forty-eight hours' delay may cause a quantity of strawberries to decay to such an extent that the market value will be affected several hundreds of dollars.

368. Overcharges. When an agent collects more than he should from a patron of the company, he must, immediately upon discovery of the error, make notation of the same in his overcharge book. All overcharges should be refunded with all possible diligence. Before an overcharge is refunded, however, the payee should present his receipt or freight bill, and across the face of the receipt should be written in red ink the date and the amount refunded. This must be signed by the agent at the time. The receipt of the payee should also be taken in the overcharge book.

369. Claims for Damages. Claims for loss and damage to freight should usually be forwarded to the claim agent, through the station agent. Such claims must be accompanied by the bill of lading, also the paid freight bill, the invoice of the merchandise, and the claimant's statement of the amount due him. If the claimant will not surrender the invoice, the agent should examine the same and certify that the claim is not greater than the invoice price. A copy of the entry should be taken from the original way-bill, with all notations thereon, also a copy of the short or bad order report concerning it. In addition to these, the agent must obtain and transmit such other information in regard to the matter as he is able. All papers required in settling claims should accompany the claim, so as to avoid delay.

EXPRESS BUSINESS

370. Origin. The business of carrying valuable parcels under guaranty of personal care, rapid conveyance and safe delivery, originated in the regular journeys with small parcels first made by William F. Harnden between New York and Boston in 1839. "The business rapidly became immense in the United States, under the charge not only of individuals, but also of great organized companies, each operating over extensive regions, and some of them over nearly the whole civilized world." Among the express companies of national importance operating at the present time are the Adams, Wells Fargo, American and Southern.

371. Use. Goods shipped by express are usually those of small bulk, as parcels, trunks, boxes, etc. The principal point to be attained is the speedy delivery of the shipment as compared with shipping by freight, which is very much slower. There is also the convenience of collection and delivery by the company, as it does all the handling (in cities and large towns) from beginning to end of the transportation, and the advantage of greater care in handling fragile articles, etc. There are also certain classes of

goods that the express companies will take with less formality and preparation for shipment than the railway freight department would require; for instance, the freight department will not carry a trunk unless crated, while the express companies will carry it (sealed with lead seal) without a crate. But articles of great bulk or heavy weight, as machinery, etc., would cost so much more to ship by express as to be almost prohibitive, unless prompt delivery was urgent.

372. Features. The principal features of the business conducted by the express companies are as follows:

1. The safe and speedy transmission of merchandise. Special cars and trains at high speed are employed between the principal cities. In many localities fresh fish, oysters, fruit and vegetables could not be had were it not for the express service.

2. Automobile and wagon service, by means of which the companies receive goods at the sender's door (except in small towns and villages) and deliver them to the consignee at destination; whereas railroads transport freight only from their own depot, and the consignee must cart them away from depot at destination.

3. The safe transportation of money and valuables. (See paragraphs 119-126.)

4. The express money-order system, by means of which remittances may be made to any part of the world with perfect safety. (See paragraphs 109-118.)

5. "C. O. D." business, in which the company receives goods at the store of the merchant, and carries and delivers them to the purchaser, collecting the amount of the invoice and returning the cash to the shipper. (See paragraphs 127-128.)

6. Collecting the proceeds of negotiable paper; this business is usually conducted through banks, in localities where they exist, but it is a great convenience to the public, especially in the case of localities where there are no banks, that the express companies will undertake such collections. (See paragraph 129.)

7. **Special Services.** The express companies will undertake to perform various services at distant points, acting through their employees in any locality as agents of the public. If a man dies at a distance from home, his relatives may request the express company to have the body shipped to them, and the company will attend to all the necessary arrangements.

For a modest charge, an express company will pay bills, deliver and collect packages, secure seats at theatres, berths on sleeping-cars, obtain household or merchandise supplies, and redeem pawned articles.

QUESTIONS ON TRANSPORTATION

1. How is car-load freight received and delivered? How is less than car-load freight handled? Why is all freight weighed? What is a bill of lading? What is a shipping-order? What notation is made when freight is loaded by the shipper and not counted or checked by the company?

2. Is a bill of lading negotiable? What items does the bill of lading contain? Why are the forms of bills of lading the same on all railroads? What notations should be made on the bill of lading?

3. Under what circumstances will the freight agent at destination refuse to deliver freight until the bill of lading is produced? What does he do in other cases? Is this a safe custom? What should the consignor do with his bill of lading? What is done by the agent immediately upon the arrival of freight? What is demurrage?

4. Explain why classification of freight is necessary. How is the class determined to which a given lot of freight belongs?

5. What must an agent do when he discovers that he has overcharged a patron? What must the payee do to receive his refund? To whom are claims for loss or damage to freight referred? By what must these claims be accompanied? What if the claimant will not surrender the invoice? What papers must accompany the claim? Explain how goods are shipped when consigned to "shipper's order." Why are goods shipped "shipper's order"? How does the consignee obtain his goods when sent "shipper's order"? What safety is there in this method of shipping freight?

6. How did the express business originate? Name some of the largest express companies. What goods are usually shipped by express? What are the principal reasons for making a shipment by express instead of by freight? Name the principal features of the express business. Why are valuables sent by express rather than by registered mail?

MERCANTILE AGENCIES

373. Object. The object of mercantile agencies is to furnish their subscribers with information regarding the character and credit standing of individuals, firms and corporations desiring to purchase from them on credit, thus enabling a merchant to avoid taking too great risks, and yet without refusing desirable trade. They act as a protection to the small, honest trader, enabling him, through reports on his ability, character and credit, to purchase in any market.

374. How Supported. The agency derives its support from the yearly subscriptions which it charges for its regular service; the price is graded according to the use made by the subscriber, but there is a fixed minimum sum for the service. The subscriber enters into a written contract with the agency, which states the subscription rate; binds the subscriber not to reveal to the parties reported any information furnished to him, and not to furnish the information to other parties; stipulates that the said agency shall not be held liable for any loss or injury caused by the neglect of any of its agents; states that the agency does not guarantee the correctness of the information furnished, and that the company reserves the right to cancel the subscription at any time it sees fit, and to demand the return of the volume of ratings.

375. Method of Obtaining Information. There are two principal sources from which the desired information is obtained:

1. In the larger cities trained reporters are located who interview the party on whom a report is desired, also his references and the authorities in his line of business. Trained travelling reporters cover the entire country, visiting at frequent intervals every section where there is a trader. Information is also obtained by correspondence with banks, and business men favorably known to the agency.

2. The agencies keep in touch with public records for items entered, such as suits, judgments, etc., and can readily ascertain the ownership of property by making the necessary search.

376. Principal Agencies. The principal agencies that cover the entire country and include every line of business are Bradstreet's and R. G. Dun and Company. There are many smaller agencies devoting their activities to a particular line of business.

377. Districts. Each agency has a main office in New York City, and branch offices in each of the principal cities of the United States and Canada. Each of the branch offices has charge of the district in which it is located, and all the information collected in that district is sent to it. All the offices are subordinate to the main office at New York, from which the system is managed.

378. How Information is Furnished. Information is furnished to subscribers by means of reference books and special reports.

379. Reference Books. Volumes of ratings called reference books, revised quarterly, are furnished to subscribers. These contain the credit ratings of all merchants and dealers in the country. The names are arranged in alphabetical order, under the heads of the State, county and town, and opposite the name are printed certain characters which indicate the estimated capital and credit of the person or firm rated. The reference books of the large agencies contain the names of nearly 2,000,000 merchants, traders, manufacturers, bankers and business men.

380. Special Reports. Special reports concerning any firm or individual are furnished to subscribers on request. Such reports contain detailed information which it is not possible to give in the reference book. As there are nearly 5,000 changes a day in the reference book, it will be seen that special reports are very necessary.

The following illustration shows points covered in the average special report:

381. Illustration of Special Report.

484--7-13-18--Con.

WORK & WYNN - - - - - Dry Goods - - - ALLENTOWN, PA.
 John A. Work, age 35, married: 240 Prosperity St.
 Charles Wynn, age 36, married.

FINANCIAL CONDITION:-April 20, 1915 at their place of business. Work handed our reporter the following signed statement, as per inventory of April 1, 1915:-

ASSETS			
*Merchandise	\$13,300		
*Accounts receivable	4,000		
*Cash	1,200		\$18,400
*Fixtures	3,000		
*Real estate	18,250		21,250
			<u>\$39,650</u>
LIABILITIES			
*Accounts payable	\$ 7,250		
*Mortgage on Real Estate	5,700		\$12,950
			<u>\$25,700</u>
	Net Worth		\$13,950

*Annual sales, \$50,000. Insurance on Merchandise, \$9,500. Insurance on Buildings, \$15,000.

(Signed) Work & Wynn;
 John A. Work:-

Their statements for two years have shown:

	ASSETS	LIABILITIES	NET WORTH
April 15, 1913	\$24,300	\$3,100	\$21,200
April 6, 1914	\$32,372	\$8,241	\$24,131

They began with an original investment of \$5,000 equally contributed, and have made progress each year. Their business is retail, their sales being mainly for cash, though they have a number of charge customers who pay in 30 and 60 days; still they at times show the need of additional cash capital. They keep their stock in good condition, and their last statement including quick assets of \$18,400 with current liabilities of \$7,250 is regarded a correct showing of their affairs. The real estate consists of the partners' homes. With reasonable allowance for depreciation, authorities estimate the firm's net worth at from \$15,000 to \$20,000.

TRADE OPINIONS:-In the markets we find six houses selling them, who have had the account from three to six years; highest credit with two, \$500, terms 60 days, owe less than \$300, payments prompt. Another credits them up to \$500 on 60 and 70 days, now owing \$250, one half 30 days past due. Three credit up to \$200 on 60 and 70 days, payments 15 to 30 days slow. A seventh, who has had the account five years, credits to \$350 on 60 days, reports payments at times slow. When notes are given in part payment of an account, they are always paid at maturity.

ANTECEDENTS:-The co-partnership was formed January 1, 1907. The business had previously been carried on by Work alone from 1902 under the style of J.A. Work & Co., prior to which he had been employed for five years in the same line by a firm in Philadelphia. Wynn before this connection was of the firm Johnson & Wynn, Dry goods, Peacedale, Pa., who had been established for five years, but met with only moderate success, and closed the business in 1906 paying in full. Previous to that partnership Wynn had taught in country schools.

484--7-13-15--#2

WORK & WYNN - - - - - ALLENTOWN, PA.

FIRE RECORD:--Suffered a loss by fire of \$500 at their store in March 1910, covered by insurance which was promptly adjusted.

GENERAL REMARKS:--Work has charge of the accounts and assists in the general management, Wynn attending mainly to the buying and the sales. Both bear good reputations; are said capable and closely attentive, and prospects are favorably regarded. The store is well adapted to the business, in good location and they are said to have a long and favorable lease.

141-12-----T D-----July 12, 1915.

382. Foreign Reports. Some mercantile agencies are equipped to furnish their customers with information concerning the credit ratings of business houses in foreign countries.

QUESTIONS ON MERCANTILE AGENCIES

1. What is the object of mercantile agencies? How are they supported? What contract is required of subscribers? What are the two principal sources from which these agencies get their information? Name the principal mercantile agencies. Explain how the business is divided into districts. How do these agencies furnish their subscribers with the information they desire? Is the business of these agencies limited to the United States, or do they furnish information relative to merchants in foreign countries, if it is so desired? Can the information furnished by these agencies be depended upon as a base of credit?

TELEGRAPH AND CABLE SERVICE

383. Telegrams. The use of the telegraph as a means of communication is constantly increasing, not alone because of the time-saving element, but because telegraphic communications are usually given prompt attention by their recipients. By the introduction of "day letters" and "night letters," the great telegraphic companies have made it possible for business transactions to be conducted by telegraph at moderate expense.

384. Classification of Messages. The Western Union Telegraph Company offers four classes of service at varying rates: The day message, the day letter, the night letter, and the night message. The person sending the telegram should carefully indi-

cate the class of service desired, otherwise the telegram will be transmitted as a day message.

The day message is the ordinary full-rate telegram. In transmission from one point to another, such telegrams have precedence over all other forms of messages. The charge depends upon the distance of the destination, and is based upon a message of ten words, with an extra charge for each additional word.

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left; padding: 2px;">CLASS OF SERVICE DESIRED</th> </tr> <tr> <td style="padding: 2px;">Day Message</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">Day Letter</td> <td style="padding: 2px; text-align: center;">X</td> </tr> <tr> <td style="padding: 2px;">Night Message</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">Night Letter</td> <td style="padding: 2px;"></td> </tr> <tr> <td colspan="2" style="padding: 2px; font-size: 0.8em;"> Patrons should mark on it exactly the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A DAY MESSAGE. </td> </tr> </table>	CLASS OF SERVICE DESIRED		Day Message		Day Letter	X	Night Message		Night Letter		Patrons should mark on it exactly the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A DAY MESSAGE.		WESTERN UNION  TELEGRAM NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, VICE-PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px; font-size: 0.8em;">Form 1506</td> </tr> <tr> <td style="padding: 2px;">Receiver's No.</td> </tr> <tr> <td style="padding: 2px;">Time Filed</td> </tr> <tr> <td style="padding: 2px; text-align: center;">9 22 A. M.</td> </tr> <tr> <td style="padding: 2px;">Date</td> </tr> <tr> <td style="padding: 2px; text-align: center;">28 June</td> </tr> </table>	Form 1506	Receiver's No.	Time Filed	9 22 A. M.	Date	28 June
CLASS OF SERVICE DESIRED																				
Day Message																				
Day Letter	X																			
Night Message																				
Night Letter																				
Patrons should mark on it exactly the class of service desired. OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A DAY MESSAGE.																				
Form 1506																				
Receiver's No.																				
Time Filed																				
9 22 A. M.																				
Date																				
28 June																				

Send the following message, subject to the terms on both halves, which are hereby agreed to

Raleigh N. C. July 22nd, 1915.

John W. Jones,

Perry Building, Philadelphia.

Offer two cars eight inch roofers dressed matched and beaded eighteen dollars for fifteen cent rate of freight delivery can you handle one or both cars telegraph quick.

Arnold Company.

385. Day Letter.

The day letter is designed for communications of greater length than the ordinary urgent day message, but which

will not suffer from reasonable delay caused by day messages, which are entitled to precedence. The average day letter is delivered in about three hours from the time of transmission, and the company endeavors in any event to deliver it the same business day.

The charge for a day letter of fifty words is one and one-half times the cost of a day message of ten words. The lesser proportional charge is due to the fact that the company is able to send the letters during the period when other messages have slackened. The company will accept day letters at any time during the day or night. Code language is not permissible.

The night letter is accepted by the company up to midnight for delivery on the morning of the next ensuing business day. The charge for fifty words is the same as the ordinary day message rate for ten words. Code language is not permissible.

The night message is accepted by the company up to 2. A.M. at reduced rates, to be sent during the night and to be delivered not earlier than the morning of the next ensuing business day. The rate is based on a telegram of ten words, with an extra charge for each additional word. The rate is lower than the ordinary day message rate, but when the number of words is in excess of ten, it is generally more advantageous to make use of the night letter.

386. Cablegrams: There are four classifications under which cablegrams may be sent, and the desired classification should be plainly indicated. They are full rate, deferred half rate, cable letters, and week-end letters.

The full rate cablegram is one sent at the full rate, and takes precedence over all other cablegrams. Code language is permitted.

The deferred half rate cablegram is a message which is accepted subject to being deferred by full rate messages

for not exceeding twenty-four hours. It must be written in the language of the country of origin or of destination, or in French.

The cable letter is a message for plain-language communications, and may be sent at reduced rates to certain foreign points by cable, and from those points to its destination by mail.

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2">CLASS OF SERVICE DESIRED</th> </tr> <tr> <td>Full Rate</td> <td></td> </tr> <tr> <td>Half Rate Deferred</td> <td></td> </tr> <tr> <td>Cable Letter</td> <td style="text-align: center;">X</td> </tr> <tr> <td>Week End Letter</td> <td></td> </tr> </table> Patent right of mark, etc. of cable No class of service to be used OTHER THAN THE CABLEGRAM WILL BE TRANSMITTED AT FULL RATE	CLASS OF SERVICE DESIRED		Full Rate		Half Rate Deferred		Cable Letter	X	Week End Letter		WESTERN UNION  CABLEGRAM GEORGE W. E. AYERS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVOERE BROOKS, VICE-PRESIDENT	Form 2008 <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="height: 30px;">Number</td> </tr> <tr> <td style="height: 30px;">Time Filed</td> </tr> <tr> <td style="height: 30px;">Number of Words</td> </tr> </table>	Number	Time Filed	Number of Words
CLASS OF SERVICE DESIRED															
Full Rate															
Half Rate Deferred															
Cable Letter	X														
Week End Letter															
Number															
Time Filed															
Number of Words															

Send the following Cablegram, subject to the terms on back hereof, which are hereby agreed to

Philadelphia July 22, 1915.

CIT Black.

London.

Advise quick your intention regarding pending deal.

Smith

387. Cable Letter.

The week end letter may be filed with the company before midnight Saturday for delivery on the following Monday. Since such a message can be sent during slack hours at the company's convenience, the rate is considerably lower than the regular cablegram rate.

QUESTIONS ON TELEGRAPH AND CABLE SERVICE

1. Explain how the telegraph aids commerce. What can you say about the use of the telegraph? What advantage is gained by the use of telegrams? By the adoption of what methods have the telegraph companies made it possible for business to be conducted by telegraph? What four classes of service does the Western Union Telegraph Company offer? Name the four classifications under which cablegrams may be sent, and explain each. What is a "cable code"? Is code language permitted in sending telegrams and cablegrams? Do the telegraph companies charge for the name and address of the party to whom a telegram is sent? Do they when a cablegram is sent? How about the signature of the sender? How should \$1,000,000 be written in a telegram? Why?

THE POSTAL SYSTEM

388. The Mails. In other places in this book we have described money orders, registered mail, and the postal savings banks. These functions of the Post-Office Department are incidental to its main business, which is the carrying and delivery of mail matter.

389. Postage Rates. Nothing is more important than to place the proper amount of postage stamps on all letters and packages entrusted to the mails, and, in the case of important mail matter, it is hardly safe for one to trust his memory as regards the proper amount of postage.

390. Domestic Postage Rates. It is quite generally understood that the domestic rate for letters and other mail of the first-class is two cents per ounce or fraction thereof. This rate applies to any point within the United States and its possessions; to officers or members of crews of U. S. naval vessels; to and from the U. S. Postal Agency at Shanghai, China; to officers and men of the U. S. Navy in the U. S. Naval Hospital at Yokohama, Japan; to Canada, Cuba, Mexico, and the Republic of Panama.

This rate also applies, as regards letters only, to Great Britain,

Ireland and Newfoundland, and to letters for Germany dispatched by steamers sailing direct for German ports.

Postal rates and regulations frequently change, and it is so easy to make inquiry at the post-office concerning the proper amount of postage that there is no excuse for mistake.

The charge for post and postal cards to any point above mentioned is one cent each, except for Great Britain and Germany, for which the charge is two cents each.

391. Foreign Postage. The average American business house is careless about placing the proper amount of postage on foreign letters, and United States Consuls in the various foreign countries frequently complain that this carelessness results in creating a bad impression on the foreign customers and in consequent loss of trade. Mr. David J. D. Myers, U. S. Consul at Iquique, Chile, recently said in one of his reports: "A certain firm here receives more letters from the United States than any other commercial house in Iquique. After each mail the head of the firm goes to the post-office and looks over the short-paid letters to his address. He pays the postage due on those from persons with whom his firm is in correspondence, and refuses to take the others. Other firms disregard notice to call and pay penalty postage. The administrator of the post-office states that few or no letters are received from Europe with short-paid postage, but that a large number are received from North America, and these rarely reach the addressees.

"The delay in the delivery of short-paid letters is inevitable. Having to purchase one's letters causes a certain antipathy which undoubtedly results in the loss of good customers. The foreign firm believes that if such a little matter as postage is overlooked, it may expect negligence in filling of orders and lack of proper attention to invoicing, packing and shipping orders, all of which are of vital importance and about which there should be no uncertainty."

392. Universal Postal Union. The Universal Postal Union is an association composed of nearly all the countries of the world, both large and small, for the purpose of adopting uniform regulations concerning the mails.

Each country agrees to charge the same rate for foreign letters as other countries, and each agrees to receive and deliver mail from all other countries in the Postal Union.

Any two countries, however, may agree on a postal rate as between themselves alone.

393. Foreign Postage Rates. In general, the foreign rate on letters is five cents for the first ounce and three cents for each additional ounce or fraction thereof. This rate applies to all foreign countries except the following, where, by mutual agreement with the United States, the domestic rate of two cents per ounce applies: Canada, Cuba, Mexico, Republic of Panama, the city of Shanghai (China), England, Ireland, Newfoundland, Scotland and Wales. Letters to Germany take the domestic rate when sent by a steamer sailing direct to a German port, and the foreign rate when sent otherwise.

The foreign rate on post and postal cards is two cents each.

394. Parcel Post. The Parcel Post offers a convenient, quick and efficient means of transporting mailable parcels. The service reaches more places than any other transportation agency. It brings producer and consumer into closer contact, thus opening the way to reducing the cost of living. The rates, which depend upon the nature of the contents and the distance of the destination, are usually lower than the rates charged by express companies for similar service. Parcels may be insured against loss and may be sent C. O. D.

395. Special Delivery. A special delivery stamp or ten cents worth of ordinary stamps in addition to the lawful postage, secures

delivery, by messenger, to persons who reside within the carrier limits of city delivery offices, to patrons of rural service who reside more than one mile from post offices but within one mile of rural routes, and to residents within one mile of any post office. When ordinary stamps are used, the words "Special Delivery" must be written or printed on the envelope or wrapper directly under but not on the stamps. In transit from one post office to another, special delivery matter is sent with the regular mail.

One delivery only is attempted. If the letter or parcel cannot be delivered for the reason that no one is present to receive it, or for other causes, notice is left at the place of address and the mail returned to the post office, where it is treated thereafter as ordinary mail.

Special delivery service does not insure unusual safety. When this is desired, the letter or package should also be registered or insured.

QUESTIONS ON THE POSTAL SYSTEM

1. What is the main function of the Post Office Department? What other services does it perform? Why is it important to see that all mail has the proper amount of postage placed on it? What are the domestic postage rates? To what foreign countries does this rate also apply? Why is this? Is it safe to assume that these rates are always the same? What is the rate for sending postal cards?

2. What complaint is frequently made against American business houses regarding postage on foreign mail matter? What does this practice result in? How do merchants in foreign countries treat this practice? Are the business houses in foreign countries as careless regarding the mail matter which they send out? What delay is caused by this practice? How do foreign merchants reason regarding the carelessness in placing insufficient postage on mail matter? Are they justified in refusing to do business with a firm that follows this practice?

3. What is the Universal Postal Union? Name its advantages. Do all countries belong to this union? May countries form an agreement concerning the postal rates without becoming a member of this union? What are the foreign postage rates? Do these rates apply to all foreign countries? Why not? Name the exceptions.

4. What is the Parcel Post? What benefit is the Parcel Post to this country? What are the rates for sending packages by this method? How do they compare with rates charged for a similar service by the express companies? In case of loss or damage, what redress has the sender of a package? May packages be sent C. O. D. by Parcel Post?

5. Where may letters be sent by "special delivery?" What is the object in sending letters by special delivery? What charge is made for this service? How may it be paid? When ordinary stamps are used, what is the procedure? How is delivery made? Does this method insure unusual safety? What should be done with valuable matter? If the letter or parcel cannot be delivered for any reason, what is done?

THE FISCAL SYSTEM OF THE UNITED STATES

396. Fiscal Year. The fiscal year commences on July 1 in each year.

397. Sources of Revenue. Customs duties, internal revenue (taxes on the manufacture and sale of liquors and tobacco; stamp taxes; income tax, etc.), land sales, and "miscellaneous" are the sources of revenue.

398. Supervision of the Revenue. The Secretary of the Treasury superintends the collection of the revenue, and prescribes the forms of keeping and rendering all public accounts.

399. Estimates of Revenue and Expenditure. The Secretary of the Treasury prepares and lays before Congress at the commencement of every session a report on the subject of finance, containing estimates of the public revenue and public expenditure, also plans for improving and increasing the revenue, for the purpose of giving information to Congress.

400. Taxation and Appropriations. Congress enacts legislation authorizing the collection of taxes for public purposes, and makes all appropriations for the support of the government.

401. Depositories of Public Moneys. The Treasury, and subtreasuries located at Baltimore, Boston, Chicago, Cincinnati, New Orleans, New York, Philadelphia, St. Louis and San Francisco, and the Federal Reserve banks, together with more than 400 National banks designated in all sections of the country, are the regular depositories in which all public moneys are received and deposited to the credit of the Treasurer of the United States. There are also more than 1,000 National banks which have been designated as special depositories in which the Treasurer may deposit funds at his discretion. They have no transactions with collectors or receivers.

402. Bullion Fund. For the purpose of enabling mints and assay offices to transact business without delay, the Secretary of the Treasury keeps in mints and assay offices such an amount of public money as may be convenient and necessary. Those who take bullion to such institutions are paid the full value thereof as soon as practicable after the value has been ascertained. Such moneys constitute what is known as the "bullion fund."

403. Collections of Public Moneys. All moneys received from whatever source for the use of the United States, with the exception of postal moneys, are paid by the various collectors and other agents into the Treasury the same day as they are received, or as soon as possible thereafter.

404. Disbursements of Public Moneys. The Treasurer of the United States disburses the public moneys upon warrants drawn by the Secretary of the Treasury and countersigned by the Comptroller of the Treasury.

405. Postal Moneys. The receipts and disbursements of postal moneys are under the exclusive control of the Postmaster

General. The Treasurer of the United States receives certain amounts of the postal revenues in a special account for the service of the Post Office Department, but has no control over these funds. Postal moneys are disbursed by warrants of the Postmaster General.

406. Auditing of Accounts. The accounts of each department of the government are audited at regular intervals by special auditors.

407. Annual Report. It is the duty of the Secretary of the Treasury to lay before Congress on the first day of the regular session thereof an accurate statement of receipts and expenditures during the preceding year.

QUESTIONS ON THE FISCAL SYSTEM OF THE UNITED STATES

1. What is meant by "fiscal year?" What is a fiscal period? When does the fiscal year of the United States Government begin? What are the sources of revenue of the United States Government? Under whose supervision does the collection of the revenue come? How is the amount of revenue needed to meet the expenses of the government arrived at? How is this revenue raised? How are the expenses paid? Where is the money of the United States Government deposited? What is the "bullion fund?" Who attends to the collection of public moneys? What is done with this money as soon as collected? Who pays out the public moneys and upon what? Under whose control does the postal money come? Who has charge of the disbursement of the postal money? When and by whom are the accounts of each department of the government audited? When and to whom does the Secretary of the Treasury make a report? What does this report contain?

INDEX

ABANDONMENT,	157	Banks, Federal Reserve,	95
Acceptance,	39	National (See National Banks)	
Acceptances, bank,	43-45	State (See State Banks)	
foreign business,	45	Barter,	3
marketability,	45	Bearer, to,	21
life,	45	Beneficiary,	155
advantages as an investment,	45	Bill-broker,	45
Accommodation maker and indorser,	32	Bill of exchange, commercial,	67
paper,	32	foreign,	66
Advantages of a bank account,	12	of lading,	162-166
Advisory Council, Federal,	100	Board, Federal Reserve,	99
Agencies, mercantile,	172	Bonds,	133
Agent, Federal Reserve,	96	registered,	133
fiscal,	109	coupon,	133
insurance,	145	coupon,	133
transfer,	107	Government,	133
Allonge,	29	Municipal,	133
Alloy,	5	railroad,	133
Annual dividend policy,	153	public utility,	133
Annuity policy,	152	industrial,	134
Appropriations,	183	first mortgage,	134, 137
Arrival draft,	39, 41	second mortgage,	134, 137
of freight, notice of,	167	consolidated mortgage,	134, 137
Assay office,	69	general mortgage,	134
Assignee,	108	collateral trust,	134
Association, joint-stock,	138	refunding,	134
Average,	157	debenture,	134
BANK acceptances,	43	income,	134
drafts,	46-48	convertible,	134
use,	46	general mortgage sterling loan,	134
financial centres,	46	equipment,	134
on New York,	47	car trust certificates,	134
how obtained,	47	postal savings,	120
collection,	48	stocks and,	137
opening an account at,	13	Book accounts, loans on,	111
Bankers and brokers,	115	Borrowers and borrowing,	122
Banking,	79-118	Broker, insurance,	145
Bank notes, National,	85	Brokers, bankers and,	115
Reserve,	98	curb,	142
		note,	117

- Building and Loan Associations . 121
 object, 121
 capital, 121
 borrowers and non-
 borrowers, 122
 borrowing, 122
 outline of plan, 122
 sources of profit, 123
 terminating and per-
 manent, 123
 withdrawals, 123
 Bullion, 5
 fund, 184
 Buyer's option, 141
 CABLEGRAMS, 177
 Cable letters, 178
 service, 175-199
 Call loans, 88
 Capital, 112, 121, 131
 of National banks, 81
 of Reserve banks, 95
 stock, 131
 stock, payment of, 131
 Car-load (C. L.), 161
 Car trust certificates, 134
 Cash dividends, 132
 value, 155
 Cashiers' checks, 50
 Central Reserve cities, 85
 Certificate of stock, 131
 Certificates, Clearing House, 103
 loan, 103
 gold, 7
 of deposit, 51
 silver, 7
 Certification, 22
 over-, 23, 85
 Characteristics of corporations, 127
 Charter, 130
 Check-book, method of keeping, 16
 17, 18
 Checks, 11-27
 form of, 11
 deposit and check system, 11
 advantages of, 12
 opening an account, 13
 deposit slip, 14
 Checks, indorsing for deposit, 14
 entering the deposit, 18
 check-book, 16, 17, 18
 pass-book, 13
 as vouchers, 19
 how to draw, 19
 raising, 19, 20
 stopping payment, 21
 "to Order," 21
 "to Bearer," 21
 certification, 22
 over-certification, 23
 volume of exchanges, 24
 cashiers', 50
 Cheques, travellers', 69
 Circulation of money in U. S., 9, 98
 Cities, Central Reserve, 85
 Reserve, 85
 Claims for damages, 169
 Classification of freight, 168
 Clearing House, 89, 101-106
 Association, 101
 certificates, 103
 loan certificates, 104
 Stock Exchange, 141
 method of, 101
 Clearings, New York, 24
 "Close" corporation, 128
 C. O. D. business, 61, 170
 Coins, U. S., 5
 Coinsurance, 149
 Collateral, 32, 33, 88, 89, 97, 104
 note, 32
 trust bond, 134
 Collection of notes, 29, 89
 Collections, 62, 89, 99, 170
 Commerce Commission, Inter-
 state, 162
 Commercial paper, 84
 Commission, 141
 Common stock, 131
 Companies, Trust, 106
 Consolidated mortgage bond, 134-137
 Contract, 145
 Convertible bond, 134
 Corporations, 127
 characteristics, 127
 public, 128

Corporations, private,	128	Discounting,	31, 86, 88
for what formed,	128	risk in,	31
how formed,	129	Dividend,	86, 132, 153
duration,	129	Domestic letter of credit,	71
powers,	129	Drafts,	37-49, 87
management,	129	parties,	37
cumulative voting,	129	sight,	39
liability,	130	time,	39
franchise,	130	arrival,	39, 41
charter,	130	acceptance,	39
capital stock,	131	"no protest,"	40
classes of stock,	131	how payable,	40
dividends,	132	force of the demand,	41
bonds,	133	difference between drafts and	
classes of bonds,	133	checks,	41
fundamental difference,	136	bank acceptances, (See ac-	
short-term notes,	136	ceptances)	
financing a railroad,	137	bank drafts, (See bank	
joint stock associations,	138	drafts)	
limited partnerships,	139	duration of corporations,	129
trustee for,	107	EARNINGS of National Banks,	80
Council, Federal Advisory,	100	of Reserve Banks,	96
Coupon bond,	133, 135	Elasticity of the currency,	97
Credit insurance,	158	Endowment policy,	152
Credit, letters of,	71	Equipment bond,	134
Cumulative preferred stock,	131	Examinations; Clearing House,	104
Cumulative voting,	129	State banks,	111
Curb market,	142	Examiners, National bank,	91
Currency,	85	Excess insurance,	148
elasticity of the,	97	Exchange,	46
DAMAGES, claims for,	169	bill of,	66
Day letter,	176	commercial bill of,	67
message,	176	foreign,	65-69
Debenture bonds,	134, 137	market, foreign,	69
Deferred dividend policy,	153	necessity for medium of,	3
Delivery of freight,	167	rate of,	66
special,	181	the stock,	139
Deposit, certificate of,	51	volume of,	24
entering the,	15	Expectation of life,	154
indorsing for,	14	Expenses of a bank,	80
Deposits,	96	Express business, (See trans-	
Deposit slip,	14	portation)	
Deviation,	156	"C. O. D." business,	61, 170
Directors,	82, 95	money by,	60
Directors' meetings,	87	money orders,	57
oath,	91	FEDERAL Advisory Council,	100
Discount house,	45	Reserve agent,	96, 97
		banks,	90, 95

- Federal Reserve Board, . . . 45, 99
 notes, . . . 7, 86, 97, 99
 system, 95
 banks, 95
 capital, 95
 directors, 95
 earnings, 96
 State Banks and
 Trust companies, . . . 96
 deposits, 96
 powers, 96
 Federal Reserve
 notes, 97
 elasticity of the cur-
 rency, 97
 Reserve bank notes, . . 98
 reserve, 99
 collections, 99
 Federal Reserve
 Board, 99
 Federal Advisory
 Council, 100
 Financing a railroad, . . . 137
 Fire insurance, 146
 form of policy, . . . 146
 rider, 146
 lightning, 146
 other forms, 146
 rates, 147
 who may obtain insur-
 ance, 147
 insurable interest, . . . 147
 reinsurance, 148
 excess insurance, . . . 148
 co-insurance, 149
 First mortgage bond, . . . 134, 137
 Fiscal agent, 109
 system of U. S., . . . 183
 "Flat," 141
 Foreign business, 43
 cheque, limited, 59
 exchange, 65-75
 intrinsic par, 65
 rate, 66
 bill of exchange, . . . 66
 commercial bill of ex-
 change, 67
 Foreign exchange market, . . 69
 shipments of gold, . . . 69
 travellers' cheques, . . . 69
 letters of credit, . . . 71
 express money order, . . . 58
 postage, 180
 postal money order, . . . 53
 remittance, 59
 Formation of corporations, . . 129
 Franchise, 130
 Freight bill, 167
 business (See transporta-
 tion)
 delivery of, 167
 notice of arrival of, . . . 167
 Full-paid stock, 131

 GENERAL mortgage bond, . . . 134
 sterling loan bond, . . . 134
 Gold certificates, 7
 shipments, 69
 Government bonds, 133
 Guaranteed stock, 131
 Guardian, 107

 HOUSE, the Clearing, 101
 method of clearing, . . . 101
 must balance, 102
 how balances are paid, . . 102
 clearing house certificates, . 103
 clearing house loan certifi-
 cates, 103
 examinations, 104
 protection against losses, . 104
 benefits, 104
 London clearings, 105
 non-members, 105

 IDENTIFICATION, 22, 54
 Income bonds, 134
 Indorsee of a note, 29
 Indorsement, 21, 29, 54
 blank, 21, 30
 full, 21
 "guaranteed," 21
 "without recourse," . . . 29

Indorser of note,	28, 29, 32	Life insurance, premium,	154
Indorsing for deposit,	14	reserve, cash and paid-up values,	155
Industrial bonds,	134	beneficiary,	155
Instalment annuity policy,	153	policy,	152
dividend,	132	Lightning,	146
Insurable interest,	147	Limited foreign cheque,	59
Insurance,	108	partnerships,	139
kinds,	145	term policy,	152
fire,	140	Listing,	140
life,	150	Loan certificates, clearing house,	103
marine,	156	Loans, call,	88
credit,	158	National banks limited,	83
title,	108	on book accounts,	111
Interest, insurable,	147	State banks,	111
on deposits,	80, 110, 114, 120	London clearings,	105
International money order,	53	Loss and ruin,	143
Interstate Commerce Commission,	162	MAIL, registered,	55
Intrinsic par of exchange,	65	Mails, the,	179
Investments,	113	Maker of note,	28
JOINT stock associations,	138	Management of corporations,	129
life policy,	152	Margin,	142
Judgment note,	33	Marine insurance,	156
KINDS of insurance,	145	policies,	156
LADING, order bill of,	162, 163	deviation,	156
straight bill of, 162, 163, 164, 166		perils,	156
Lease insurance,	147	abandonment,	157
Legal holiday,	28	average,	157
tender,	4, 8, 9	Market, curb,	142
Less than car-load (L. C. L.)	161	Maturity,	28
Letter, cable,	178	Medium of exchange, necessity for,	3
day,	176	Mercantile agencies,	172
night,	177	object,	172
week-end,	178	how supported,	172
Letters of credit,	71	method of obtaining information,	172
Liability of stockholders,	84, 130	principal agencies,	173
Lien (bank acceptances),	45	districts,	173
(judgment),	33	how information is furnished,	173
Life, expectation of,	154	reference books,	173
insurance,	150	special reports,	173, 174
principle,	150	foreign reports,	175
definition,	150	Message, day,	176
object,	150	night,	177
kinds of policies,	150	Method of clearing,	101
dividends,	153		
kinds of companies, 153, 155			
expectation of life,	154		

Mint par,	65	National bank notes,	85
Money,	4	dividends,	86
by express,	60	surplus,	86
by telegraph,	63	discounting,	86, 88
in circulation in U. S.,	9	notes and acceptances, 87, 88	
orders, express,	57-60	call loans,	88
domestic,	57	collections,	89
foreign,	58	supervision,	90
limited foreign cheques,	59	statements,	91
foreign postal remit- tance,	59	examinations,	91, 111
postal,	52-55	penalties,	92
definition and use,	52	receivership,	92
money order offices,	52	Night letter,	177
how obtained,	52	message,	177
domestic money order,	52	Non-assessable stock,	131
international money order,	53	Non-members of Clearing House, 105	
fees,	54	Non-participating companies,	155
payment,	54	No protest,	40
identification,	54	Notary public,	35
indorsement,	54	Note brokers,	117
when invalid,	55	Notes, Federal Reserve, 7, 86, 97, 99	
repayment,	55	National Bank,	7, 98
lost orders,	55	promissory,	27-37, 87
Moneys, postal,	184	use,	27
public,	184	parties,	28
Money, U. S. paper,	6	place of payment,	28
U. S. standard,	5	maturity,	28
Municipal bonds,	133	protest,	28
		object of protest,	29
		indorsement,	29
		collection,	29
		advantages and disad- vantages,	30
NATIONAL bank notes,	7, 85	discounting,	31
banks,	80-95	risk in discounting,	31
laws,	80	accommodation paper,	32
origin,	80	collateral notes,	32
how a bank is organized,	81	judgment notes,	33
application,	81	short-term,	136
certificate,	81, 82	Reserve Bank,	8, 98
capital,	81	treasury,	7
may own building,	82	U. S.,	6
directors,	82, 87, 91	Notices of arrival of freight,	167
powers,	82		
restrictions,	83	OCCUPANCY insurance,	147
commercial paper,	84	Offices, money order,	52
shareholders' liability,	84	Off-rated trade,	159
reserve,	84	Order, shipper's,	166
cities,	85	shipping,	166
central reserve cities,	85	to,	21
over-certifying,	85		

Opening an account at bank,	13	Raising (checks),	19, 20
Orders, money,	52	Rate of exchange,	66
Over-certification,	23, 85	Rates, fire insurance,	147
Overcharges,	168	postal,	179
PACKAGE clerk,	102	Receiver,	107
Paid-up value,	155	Receivership (Nat. Bank Act),	92
Paper, accommodation,	32	Recourse, without,	29
Paper, commercial,	84	Refunding bonds,	134
Parcel Post,	181	Registered bond,	133, 136
Par of exchange, intrinsic,	65	coupon bond,	133
Participating companies,	155	mail,	55
Partnership,	127	Registrar and transfer agent,	107
limited,	139	"Regular way,"	141
Pass-book, bank,	13	Reinsurance,	148
Payee of note,	28	Rent insurance,	147
Payment, stopping,	21	Repledging,	33
Penalties; National Bank Act,	92	Representative money,	6
Perils,	156	Reserve bank notes,	7, 98
Permanent, terminating and (B. Ass'n),	123	banks, Federal,	95
Personal security,	114	Board, Federal,	99
Policy,	145, 146, 150-152, 156	cities,	85
Postage rates,	179, 180	notes, Federal,	7, 97,
Postal money orders,	52	requirements,	84
moneys,	184	National banks,	84
savings bonds,	120	Reserve banks,	99
Savings System,	119	State banks,	110
System, the,	179	Trust companies,	107
Post, Parcel,	181	private banks and bankers,	115
Powers of corporations,	129	System, Federal,	95-101
of Reserve Banks,	97	value,	155
Preferred stock,	131	Revenue,	183
Premium,	145, 154	Rider,	146
Private banks and bankers,	115	Ruin, loss and,	143
corporations,	128	SAVINGS banks,	112
Profit insurance,	147	capital,	112
Profits of a bank,	80	safeguards,	112
Promissory notes, (See Notes)		management,	112
Protest,	28, 29, 40	reasons for founding,	112
Public corporations,	128	depositors' object,	113
moneys,	184	a fallacy,	113
utility bonds,	133	investments,	113
QUASI-corporation,	138	safety before profit,	113
RAILROAD bonds,	133	differences between sav- ings banks and national banks,	114
financing a,	137	Savings banks, interest,	114
		System, Postal,	119

Scrip dividend,	133	Stockholders' liability,	84, 130
Seat, Stock Exchange,	140	Stocks and bonds,	127
Second mortgage bond,	134, 137	Stopping payment of checks	21
Seller's option,	141	Supervision of National Banks,	90
Selling short,	143	Surplus,	86
Services rendered by a bank,	79	System, Federal Reserve,	95
Settling clerk,	102	Fiscal,	183
Shipments of gold,	69	Postal,	179
Shipper's order,	164-166	Postal Savings,	119
Shipping order,	165, 166	TAXATION,	183
Short selling,	143	Telegrams,	175
Short-term notes,	136	Telegraph and cable service	175-179
paper,	88	money by,	63
Sight draft,	39	Terminating and permanent (B.	
Signature book,	13	Ass'n),	123
Silver certificates,	7	Time draft,	39
Single-name paper,	89	Title examination and insur-	
<i>Sola</i> of Exchange,	66	ance,	108, 109
Special delivery,	181	Transfer agent,	107
report, (Mercantile agency)	174	Transportation,	101
State bank notes,	80, 110	freight business,	161
banks,	96, 110	C. L. and L. C. L.,	161
reserve,	110	forms,	162
loans,	111	bill of lading,	162, 163, 164
examinations,	111	shipping order,	165, 166
Federal Reserve System,	111	notations,	166
loans on book accounts,	111	shipper's order,	166
Statements of national banks,	91	delivery of freight,	167
Stock,	131	notice of arrival of freight,	167
common,	131	freight bill,	167
preferred,	131	classification,	168
cumulative preferred,	131	overcharges,	168
guaranteed,	131	claims for damages,	169
full-paid non-assessable,	131	express business,	169
unsubscribed,	131	origin and use,	169
treasury,	131	features,	171
certificate,	131	Travellers' cheques,	69
dividend,	132	Treasury notes,	7
Exchange	139	stock,	131
membership,	140	Trust companies,	96, 106
listing,	140	nature,	106
terms,	140	reserve,	107
commission,	141	trustee for corporations,	107
Clearing House,	141	registrar and transfer	
curb market,	142	agent,	107
margin,	142	guardian,	107
selling short,	143		
loss and ruin,	143		

Trust companies, receiver,	107	U. S. Postal system, registered	
assignee,	108	mail,	55, 56
title examination and in-		domestic and foreign	
surance,	108	mail,	179
fiscal agent,	109	Parcel Post,	181
interest on deposits,	110	Postal Savings System,	119
Trustee for corporations,	107	special delivery,	181
UNIVERSAL Postal Union,	181	standard,	5
Unsubscribed stock,	131	Use and occupancy insurance,	147
U. S. coins,	5	VALUED policy,	147
Fiscal System,	183	Voting, cumulative,	129
notes,	6	Vouchers, checks as,	19
paper money,	6	WEEK-END letter,	178
Postal System,	52	Who may obtain insurance,	147
money orders,	52-55	"Without recourse,"	29



